The Future of Social Welfare Systems in Canada and the United Kingdom

Proceedings of a Canada/UK Colloquium
October 17–18, 1986
Ottawa/Meech Lake

Edited by
Shirley B. Seward

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Preface

The Canada/UK Colloquium, of which this publication is a record, is the fifth in a series and, at the same time, the first of its kind. Earlier Canada/UK colloquia were held at Cumberland Lodge in Windsor Great Park in 1971, at the University of Leeds in 1979, at Dalhousie University in 1984 and again at Leeds in 1985. At the Dalhousie meeting a number of suggestions were put forward for holding Canada/UK meetings of this kind at regular intervals.

After the Dalhousie meeting, the Department of External Affairs in Ottawa and the Foreign and Commonwealth Office in London began considering how to follow up the ideas expressed at Dalhousie for a regular series of such colloquia. It was agreed that their general aim should be to bring together people in the public and private sectors in Britain and Canada to exchange information, ideas and experience in fields of concern to the two countries, to foster contacts and to broaden and deepen relations between the United Kingdom and Canada. An implicit aim was to bring together experts who otherwise would not have the opportunity to meet their opposite numbers in the other country.

The Department of External Affairs asked the Institute for Research on Public Policy to organize the 1986 colloquium on the Future of Social Welfare Systems. Responsibility for this task was given to Shirley Seward, Director of the Institute's Studies in Social Policy program, who is also the editor of this volume. On the UK side, a steering committee was established in 1986 under the convenorship of Margaret Storrie of Queen Mary College, London, and with financial and administrative support from the Foreign and Commonwealth Office.

In Canada, all organizational costs of the 1986 colloquium, including travel expenses of the Canadian participants and the accommodation and per diem of all participants, were covered by the Department of External Affairs. Valuable help and encouragement for the Ottawa meeting were also provided by the High Commissioners in Ottawa and London, Sir Derek Day and Mr. Roy McMurtry, QC. The costs of publication of this volume were covered by the Institute for Research on Public Policy. In the United Kingdom, financial support was provided by the Foreign and Commonwealth Office. In addition, generous grants were received from Allied Lyons, Barclays Bank, British Alcan, BP, British Telecom, Grosvenor Estates, ICI, Lloyds Bank, National Westminster Bank and Ultramar, and complimentary tickets were provided by Air Canada and British Airways. As a result, the United Kingdom was able to send a team of scholars, parliamentarians and other social welfare experts to the Ottawa colloquium. It is hoped that future Canada/UK colloquia will be able to elicit equally generous support from the private business sectors of the two countries.

Not surprisingly, the success of the Ottawa colloquium led to a number of proposals for topics for future Canada/UK colloquia of this kind, and the organizers on both sides of the Atlantic are hopeful that they will become a permanent feature of the close relationship between the two countries.

Préface

Le colloque Canada/Royaume-Uni, dont la présente publication donne un compte rendu, est le cinquième d'une série tout en étant le premier du genre. Les colloques Canada/Royaume-Uni précédents se sont tenus au Cumberland Lodge du grand parc de Windsor en 1971, à l'Université de Leeds en 1979 et à l'Université Dalhousie en 1984, puis de nouveau à Leeds en 1985. A Dalhousie, plusieurs participants one suggéré que les colloques Canada/Royaume-Uni se tiennent à intervalles réguliers.

Après le colloque de Dalhousie, le ministère des Affaires extérieures d'Ottawa et le ministère des Affaires étrangères et du Commonwealth de Londres ont commencé à voir comment ils pouvaient mettre cette idée en pratique. Il s'agissait d'une façon générale de permettre à des représentants des secteurs public et privé de la Grande-Bretagne et du Canada de se rencontrer, d'échanger des informations, et des idées, et de relater leur expérience dans des domaines qui préoccupent les deux pays, de favoriser les contacts ainsi que d'élargir et de resserrer les relations entre le Royaume-Uni et le Canada. Il s'agissait implicitement de réunir des experts qui n'auraient pas eu l'occasion de rencontrer leurs homologues de l'autre pays.

Le ministère des Affaires extérieures a demandé à l'Institut de recherches politiques d'organiser le colloque de 1986 sur l'avenir des régimes de bien-être social. Shirley Seward, directrice du programme d'études sur la politique sociale et responsable de la publication de ce volume, a été chargée de cette tâche. Au Royaume-Uni, un comité de direction, présidé par Margaret Storrie, du Queen Mary College de Londres, fut institué en 1986, avec l'aide financière et administrative du ministère des Affaires étrangères et du Commonwealth.

Au Canada, tous les frais d'organisation du colloque de 1986, notamment les frais de déplacement des participants canadiens, ainsi que leurs frais de logement et leur allocation journalière, étaient payés par le ministère des Affaires extérieures. Les Hauts commissaires à Ottawa et à Londres, Sir Derek Day et M. Roy McMurtry, CR, ont apporté une aide et donné des encouragements précieux. Les frais de publication du présent volume ont été payés par l'Institut de recherches politiques. Au Royaume-Uni, c'est le ministère des Affaires étrangères et du Commonwealth qui a financé le projet. Par ailleurs, cette entreprise a été possible grâce à la générosité de Allied Lyons, de la Barclays Bank, de la National Westminster Bank et de Ultramar, Air Canada et British Airways ont offert des billets gratuits. Grâce à cette aide, le Royaume-Uni a pu envoyer une équipe de spécialistes, de parlementaires et d'autres experts en matière de bien-être social au colloque d'Ottawa. Nous espérons pouvoir dorénavant obtenir une aide aussi généreuse de l'entreprise privée dans les deux pays pour les colloques Canada/Royaume-Uni.

Grâce au succès du colloque d'Ottawa, plusieurs thèmes ont déjà été proposés pour les futurs colloques Canada/Royaume-Uni, ce qui n'est pas surprenant, et les organisateurs des deux côtés de l'Atlantique espèrent que ces colloques scelleront les liens étroits qui existent entre les deux pays.

Foreword

Informed observers and policy makers are well aware that in recent years social welfare systems on both sides of the Atlantic have been subject to growing scrutiny, debate and controversy. The high unemployment rates and extreme interest rates experienced during the last recession as well as important demographic changes, such as the increasing labour force participation of women and the general ageing of the population, have prompted many analysts and social groups to question the continued relevance and effectiveness – indeed, even the sustainability – of existing social welfare programs.

The issues currently debated include fiscal pressures on government budgets, the 'poverty traps' arising from high tax-back rates and other disincentives which discourage labour market entry by recipients of social benefits, and the apparent failure of social security programs either to reduce poverty substantially or to prevent a further deterioration in the distribution of market income. To the extent that policy makers have attempted to remedy these problems, proposed reforms have often been distorted or even aborted because of political or strategic obstacles encountered in mobilizing support and defusing opposition. While many of these obstacles arise from poorly designed proposals, there is also well-founded concern that disproportionately powerful groups can simply create these obstacles in the process of defending their interests, while other less well-endowed groups (often the potential beneficiaries of proposed changes) may be incapable of articulating even their basic needs and interests.

The rebuilding of any broad consensus on social policy will no doubt require many years and will demand attention to these structural aspects of decision making in a pluralist democracy. It will also require some acceptable reformulation of principles of selectivity and targeting of social programs, so as to assure equality of opportunity without insisting upon a prohibitively expensive uniformity of treatment or outcome in all things.

The future of social welfare systems is a particularly timely and important topic in view of the major initiatives undertaken recently by governments in the United Kingdom and Canada. The government of the UK has just completed the most comprehensive social security review (known as the Fowler Social Security Reviews, 1985-1986) since the Beveridge Report of the early 1940s, and is currently implementing important changes to its family, elderly and housing benefits system. On the Canadian side, where jurisdiction for social policy is shared between the federal and provincial levels of government, several provincial governments are considering major income security reforms. At the national level, a number of studies have proposed changes to the social welfare system. The Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Commission, 1985) proposed a Universal Income Security Plan (UISP) whose most innovative feature was a program to supplement the incomes of the working poor. A subsequent Commission of Inquiry on Unemployment Insurance (the Forget Commission, 1986) sought to restore the primary focus of UI as social insurance, while eliminating those features of the current program that serve as social assistance. These proposals have not yet been translated into action at the federal level. However, more modest initiatives are emerging from the federal government's Tax Policy Review launched in 1986. This review, which is still under way, includes proposals for reform of federal tax and transfer programs, with the objective of improving the targeting of benefits to the poor.

The 1986 Canada/UK Colloquium on the Future of Social Welfare Systems brought together leading actors in social policy from both countries, including representatives of community organizations, governments and universities, as well as several individuals – among them Colloquium Chairperson Claude Forget – who were involved in designing major features of the current social welfare system. This group provided the basis for an interesting set of papers and for an animated discussion addressing the technical issues of social welfare programs within the framework of political-strategic considerations for implementing reforms.

It was recognized by all participants that there was a certain asymmetry between the Canadian and UK papers delivered at the colloquium. The UK papers were all prepared by academics and focused on specific areas or problems within the social welfare system. The Canadian authors presented a more global approach, characteristic of policy makers and practitioners in the social security field, involving simultaneous consideration of several dimensions of social welfare policy, including strategic problems along with technical aspects of policy analysis. These two tendencies in the papers do not, of course, reflect differences in national approaches to social security. They resulted simply from decisions made by the Canadian and UK organizing teams prior to the colloquium, with the intention of providing a fruitful and dynamic exchange of views. The strength of the UK papers is their clear and well-defined analytical focus, which renders them of obvious relevance to particular areas of policy formulation and evaluation. The feature of the Canadian papers is their blending of problem analysis, policy formulation and strategic considerations, leading perhaps more directly to practical policy prescriptions for social welfare reform.

This volume is divided into two parts. The first is an Overview, which provides a summary of each of the six Canadian and six UK papers, as well as an account of the discussion surrounding the papers. The concluding section of the Overview discusses the principal issues that emerged from the colloquium deliberations. The second part of the volume includes the 12 papers, organized in three sections corresponding to the following themes: (I) historical developments and forces for change, (II) the influence of the political process on social security developments, and (III) the nature of policy responses to demographic change. While the papers were subject to light technical editing, no attempt was made to standardize their format, length, or reference systems. In keeping with the spirit of a volume of conference proceedings, the papers were reproduced in large part as written by the authors and were not subject to the usual external review process for Institute monographs.

In publishing this volume, the Institute hopes to encourage further debate on the future of social welfare systems and ongoing dialogue between policy analysts and academics in both countries.

Rod Dobell
President
September 1987

Avant-propos

Les observateurs éclairés et les décisionnaires n'ignorent pas que depuis quelques années, les régimes de bien-être social sont analysés, discutés et critiqués de plus en plus des deux côtés de l'Atlantique. Le Chômage élevé et les taux d'intérêt exorbitants durant la dernière récession ainsi que des changements démographiques importants comme l'intervention accrue des femmes sur le marché du travail et le vieillissement général de la population ont incité bien des analystes et des organismes sociaux à se poser des questions au sujet du bien-fondé et de l'efficacité – voire de la possibilité du maintien – des programmes actuels de bien-être social.

A l'heure actuelle, il est notamment question des restrictions budgétaires que doivent s'imposer les pouvoirs publics, du cercle vicieux dans lequel se trouvent les assistés sociaux du fait que leur entrée sur le marché du travail n'est pas favorisée par une forte réduction des prestations et par d'autres mesures décourageantes; constate par ailleurs que, de toute apparence, les programmes de sécurité sociale ne sont pas parvenus à enrayer considérablement la pauvreté ni à éviter une répartition de plus en plus injuste des revenus. Lorsque les technocrates ont essayé de remédier à ces problèmes, les réformes proposées ont été déformées voire tuées dans l'oeuf à cause des obstacles politiques ou stratégiques qui se sont dressés devant ceux qui voulaient mobiliser l'aide nécessaire et en raison d'une certaine opposition. Si bon nombre de ces obstacles sont dus à une mauvaise préparation, on est en droit de s'inquiéter en voyant que des groupes excessivement puissants peuvent créer ces obstacles de toutes pièces pour défendre leurs intérêts personnels alors que d'autres groupes moins forts (il s'agit souvent des groupes susceptibles de profiter de tels changements) sont incapables de faire valoir leurs besoins et leurs intérêts fondamentaux.

Il faudra sans aucun doute des années et des années pour obtenir à nouveau un consensus général en matière de politique sociale et il faudra faire attention aux aspects structurels de la prise de décisions dans une démocratie pluraliste. Il faudra par ailleurs trouver une formulation nouvelle acceptable des principes sur lesquils sont fondés la sélection et l'orientation des programmes sociaux, pour pouvoir assurer une certaine égalité des chances sans toutefois vouloir créer une trop grande uniformité qui coûterait les yeux de la tête.

L'avenir des régimes de bien-être social est un sujet qui tombe à point nommé et qui revêt une grande importance, compte tenu des initiatives importantes prises dernièrement par les gouvernements du Royaume-Uni et du Canada. Le gouvernement du Royaume-Uni vient de terminer l'étude la plus complète sur la sécurité sociale (Fowler Social Security Reviews, 1985-1986) qu'il ait faite depuis le rapport Beveridge, publié au début des années 40, et il est en train de modifier radicalement sa politique d'aide à la famille, aux personnes âgées et au logement. Au Canada, où la politique sociale relève à la fois des gouvernements fédéral et provinciaux, plusieurs gouvernements provinciaux envisagent d'importantes réformes en matière de sécurité du revenu. A l'échelon national, certains changements au régime de bien-être social ont été proposés à l'issue du plusieurs études. La Commission royale sur l'union économique et les perspectives de développement du Canada (Commission Macdonald, 1985), a proposé un Régime universel de sécurité du revenu (RUSR) dont l'aspect le plus innovateur consiste en un programme visant à compléter le revenu des gagne-petit. Ensuite, la Commission d'enquête sur l'assurance-chômage (la Commission Forget, 1986) recommande de mettre à nouveau l'accent sur l'aspect "assurance sociale" de l'assurance-chômage et de supprimer les traits du programme actuel qui en font un programme d'assistance sociale. Ces recommandations n'ont pas encore été suivies par le gouvernement fédéral. Par contre, on retrouve des initiatives moins radicales dans l'étude sur la politique fiscale amorcée par le gouvernement fédéral en 1986. Dans le cadre de cette étude, qui n'est pas encore terminée, il est notamment question d'une réforme de l'impôt et des programmes de transfert fédéraux dans le but d'arriver à aider avant tout les pauvres.

Le colloque Canada/Royaume-Uni de 1986 sur l'avenir des régimes de bien-être social a permis de réunir des personnes des deux pays jouant un rôle très important dans la politique sociale, notamment des représentants d'organismes communautaires, de gouvernements et d'universités, ainsi que plusieurs personnes – dont le président du colloque Claude Forget – qui ont participé à la conception de bien des aspects du système actuel de bien-être social, ce qui a permis d'établir une série de documents intéressants et d'avoir une discussion animée sur les aspects techniques des programmes sociaux dans le contexte des aspects politiques et stratégiques de la mise en oeuvre de réformes.

Tous les participants ont reconnu qu'il existait une certaine différence entre les documents canadiens et les documents du Royaume-Uni présentés au colloque. Les documents du Royaume-Uni avaient tous été préparés par des universitaires et ils étaient consacrés à certains sujets ou problèmes précis. Les auteurs canadiens ont abordé des sujets plus généraux, caractéristique des technocrates et des praticiens de la sécurité sociale; ils ont notamment parlé des problèmes stratégiques qui se posent ainsi que des aspects techniques de l'analyse des politiques. Ces deux tendances ne signifient pas, cela va de soi, que les deux pays ont une attitude différente en matière de politique sociale. La différence est due tout simplement aux décisions prises par les équipes d'organisatdeurs du Canada et du Royaume-Uni avant le colloque, dans le but d'obtenir un échange d'idées fructueux et dynamique. Les documents du Royaume-Uni présentent l'avantage de faires une analyse claire et précise de certaines questions et d'apporter une aide précieuse dans la formulation et l'évaluation de certaines politiques. La grande qualité des documents canadiens réside dans le fait qu'on y retrouve à la fois une étude de certains problèmes, la formulation de politiques et des considérations d'ordre stratégique qui se révéleront peut-être plus pratiques dans le cadre d'une réforme sociale.

Le présent volume est divisé en deux parties. La première donne un bref aperçu de chacun des six documents présentés par le Canada et le Royaume-Uni, ainsi qu'un compte rendu des discussions correspondantes. A la fin de cette partie, en guise de conclusion, on parle des principaux sujets abordés au cours des délibérations. La deuxième partie comprend douze documents, répartis en trois sections correspondant aux thèmes suivants: (I) évolution historique et pressions justifiant certains changements, (II) l'influence de la politique sur la sécurité sociale et (III) la nature de la réaction aux changements démographiques. Les documents ont été légèrement modifiés pour des raisons d'ordre technique, mais on n'a pas essayé d'uniformiser leur présentation, leur longueur ni les méthodes de référence. Pour garder l'esprit dans lequel les délibérations se sont déroulées, les documents ont été reproduits presque tels qu'ils ont été rédigés et le présent volume n'a pas été soumis aux vérifications extérieures pratiquées habituellement sur les monographies de l'Institut.

En publiant ce volume, l'Institut espère alimenter les discussions sur l'avenir des régimes de bien-être social et maintenir le dialogue entre les analystes et les universitaires des deux pays.

Rod Dobell
Président
Septembre 1987

Acknowledgements

As editor of this volume of proceedings, and host organizer of the 1986 Canada/UK Colloquium on the Future of Social Welfare Systems, I am indebted to many organizations and individuals.

The colloquium would not have been possible without the financial support and guidance of the Department of External Affairs in Canada and the Foreign and Commonwealth Office in London, as well as generous grants from many other contributors in the United Kingdom, as noted in the Preface to this volume. Valuable advice and logistical support were provided by the British High Commission in Ottawa and Canada House in London. The UK Steering Committee, chaired by Margaret Storrie of Queen Mary College, London, handled all organizational matters in the UK, and worked jointly with the Institute for Research on Public Policy in designing the format and agenda of the colloquium.

The quality of discussion at the colloquium was in large measure attributable to the co-chairs, Claude Forget, former minister of social affairs in Quebec, and Rod Dobell, president of the Institute.

I am grateful to the authors of the Canadian and UK papers and to Mario Iacobacci, who prepared an Overview of the proceedings. Valuable editorial suggestions on the UK papers were offered by Margaret Storrie, and Kathryn Randle provided professional technical editing services.

Many Institute staff collaborated in the organization of the colloquium and the production of the publication. I am particularly indebted to Leigh McGowan, Don Wilson, Elizabeth Van Every, Parker Staples, Ruby Day and Donna McCafferty.

Shirley B. Seward
Director, Studies in Social Policy
Institute for Research on Public Policy
September 1987

Overview

Mario Iacobacci

Introduction

This overview is intended to provide a coherent framework and thematic structure for the papers and proceedings of the Canada/UK Colloquium on the Future of Social Welfare Systems. It offers summaries of the 12 papers, a selective account of the general discussion and, in conclusion, an analysis of how the main arguments in the papers and discussion link together.

The 12 papers are organized into three thematic sections: (I) historical developments and forces for change, (II) the influence of the political process on social security developments, and (III) the nature of policy responses to demographic change. With some exceptions, each summary is followed by an account of those parts of the discussion directly relevant to the main arguments in the papers. Although the order in which the papers are considered does not correspond to the chronological order of the colloquium deliberations, this grouping of papers provides a coherent framework for analysis.

The first section addresses the historical developments in social welfare policy and their contribution to the present configuration of programs and to the forces making for change. It includes papers by

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At the time of writing this overview, the author was a research assistant in the Studies in Social Policy program at the Institute for Research on Public Policy. He is currently enrolled as a doctoral student at Cambridge University.

Al Johnson, Stanley Mansbridge, Denis Balsom and Jonathan Bradshaw. The second section examines how the outcome of social welfare reforms can be conditioned by the demands and constraints of the political process and by the lobbying effectiveness of various socio-economic groups. It includes papers by Michael Mendelson, Keith Banting, Julian Le Grand and Jeremy Richardson. The third group of papers, by the Honourable Monique Bégin, Shirley Seward, Martin Knapp and Michael O'Higgins, analyzes the policy responses of political institutions in Canada and the UK to demographic change and related issues.

The concluding section of this report summarizes the principal points that emerged from the colloquium deliberations and provides an analysis of how the main arguments of the papers and the discussion link together in a supportive, and sometimes in a contradictory, manner.

Historical Developments and Forces for Change

The first colloquium paper provided an overview of the historical developments and the confluence of forces that led to the social security system in Canada as it stands today. The author, **Al W. Johnson**, is professor of political science at the University of Toronto and a former senior public servant in both federal and provincial governments.

Johnson identified two long cycles of social policy developments in Canadian history: the post-war period and the early 1970s onward. The first cycle was marked by a grand post-war vision tantamount to a blueprint for social security in Canada. Central to this blueprint were Keynesian policies for full employment, state social insurance schemes for the elderly, the sick and the unemployed, and an income support plan for the poor and the chronically unemployed. Johnson's account of how, in the next two decades, federal and provincial governments implemented, or to be more exact, "muddled through" this blueprint, sought to identify the forces that explain Canada's trajectory in social policy. The permissive conditions created by rapid economic growth, the effects of industrialization and urbanization and the political difficulties inherent in the constitutional division of jurisdiction are examples of these forces. Each of these forces played a critical role in the establishment of the major social programs: Old Age Security (1951), the Canada and Quebec Pension Plans (1966), the Canada Assistance Plan (1966) and Medicare (1968). Thus, by the late 1960s, the post-war blueprint was largely in place, even though serious problems remained to be resolved.

The second long cycle in social policy formulation was marked by a sharp downturn in the performance of the economy. The decline in aggregate demand and accelerating inflation led to persistent increases in unemployment and to policy makers' disillusionment with the old Keynesian remedies. Johnson explained that, prior to the downturn, the federal government had enacted a major reform of Unemployment Insurance (UI) by grafting onto that program the income supplementation objectives generally attributed to social assistance. This did not eliminate the need for some form of guaranteed income. Yet, when the Federal/Provincial Social Security Review (1973-1976) attempted to deal with this gap in our income security system, the UI reform served as a major impediment. In particular, Johnson argued that the failure to reach a federal/provincial agreement was because the terms of reference of the review ruled out any modifications to the reformed UI program and to the universal element of income supplementation – Old Age Security (OAS) and Family Allowance (FA) benefits. As a result, the income support and supplementation programs proposed by the review engendered additional costs, which the parties involved were unwilling to bear.

Reflecting on the political pitfalls encountered by subsequent attempts at reform, such as the Forget Inquiry on Unemployment Insurance (1986), as well as on past developments in Canadian social policy, Johnson arrived at the following conclusion: it was the absence of a family income supplementation program that created the pressure to graft income supplementation objectives onto the UI plan in 1971 and that will continue to place unrelenting pressure to use universal (as opposed to income-tested) income supplementation (OAS/Guaranteed Income Supplement and FA) instead. According to this view, the only viable alternative is to supplement family income up to a guaranteed level, with a stigma-free income test and similar benefits to all Canadians.

Originally presented as a discussant's comments on Johnson's essay, the paper by **Stanley H. Mansbridge** offered a number of observations on Canadian social policy, including the tensions of social policy formulation inherent in a federal state, the reasons for the failure of the Social Security Review, and the strategic considerations that influence the outcome of social policy reforms. Currently senior adviser to the president of the Institute for Research on Public Policy, Mansbridge has also held senior appointments in federal and provincial governments.

Mansbridge placed considerable importance on explaining the failure of the Social Security Review. Like Johnson, he referred to the federal/provincial jurisdictional conflicts and to the pressure for fiscal restraint that accompanied the 1974 cyclical downturn in the economy. Yet he also referred to the decision of the federal government to triple Family Allowance payments in 1973 for reasons of political expediency and with only superficial consultation of the provinces. Understandably, this created a political stake in maintaining Family Allowance benefits (at least until after the 1974 general election), thus explaining why they were exempted from modifications under the review.

Strategic considerations often determine the fate of reform packages. Mansbridge noted that public debate on social policy has tended to focus too narrowly on the benefits being eliminated, without considering the possibility that the resulting savings may provide an improved benefit structure or improved targeting of the needy. Although such political pitfalls may be notoriously difficult for governments to avoid, as is the case with the universality/selectivity debate, other types of pitfalls are clearly self-inflicted. Mansbridge referred to the latter when he discussed the absence of meaningful and effective consultations with non-governmental groups, which creates the need for these groups to coalesce and seek media publicity as the last recourse for influencing public policy.

Discussion expanded on the theme of taxation and income security, bringing out that high effective marginal tax rates and other provisions of taxation and transfers constitute disincentives, or even poverty traps, preventing welfare recipients from accepting gainful employment. Thus, for many employable welfare recipients, the net result of holding a job would add a negligible amount or could even reduce their income relative to the level of benefits they received on social assistance. In this context, it was argued that refundable tax credits, such as the Child Tax Credit (1978), represented an innovative instrument for supplementing the employment earnings of the working poor, thereby avoiding the creation of poverty traps.

The refundable tax credit is, in fact, a mechanism for integrating taxation and transfers. In 1986 the Government of Canada set up an inter-departmental review of federal social tax/transfer programs to explore this and other mechanisms for harmonizing taxation and social transfers, with the object of eliminating poverty traps and reducing the inequities of the current system. In the UK, however, it was noted that there is no predisposition to integrating personal income taxation and social transfers at present, even though the Liberal-SDP Alliance has made a major proposal along those lines. Tax/transfer integration is considered further in the conclusion of this Overview.

The author of the third paper is **Denis Balsom**, senior research associate at the Department of Political Science, University of Wales. His paper focused on one dimension of the forces for change in the UK welfare system – the impact of public opinion on the formulation of policy. The author set the analytical framework by distinguishing between government policy as a product of political will and policy as a response to public opinion. In the latter sense, public opinion can be influential at various stages of policy formulation: agenda setting, delimiting of choices open to policy makers, and legitimation of decisions.

The post-war consensus on the welfare state in the UK, based on the recommendations of the Beveridge Report, was made possible by a favourable climate of high public expectations about the range of services that ought to be available from the state. This was translated into government policy by the common acceptance among all major political parties of the need for state intervention and a mixed economy. By the late 1970s however, this consensus deteriorated into ideological dissension over such issues as reversing the ratchet effect of growing state intervention. Yet in spite of this collapse, Balsom noted that all three political parties continue to claim the welfare state as their patrimony. Therefore, the current consensus is supportive of the welfare state as a whole rather than any specific component, such as the National Health Service or the National Insurance Scheme.

Balsom explained that, in order to affect electoral outcome significantly, an issue must be clearly understood and one party must enjoy an advantage over all others in terms of public confidence in its ability to handle the issue. An interesting example, illustrated in Jeremy Richardson's paper, is the depoliticization of the unemployment problem in the UK. Although surveys ranked this issue as the primary concern of British voters, it did not have a noticeable impact on support for the incumbent Conservative government in the 1983 election, largely because public opinion was not confident that the opposition parties could provide a superior solution.

In an analysis of public opinion trends on welfare issues, Balsom concluded, among other things, that support for greater welfare provision has been rising steadily between 1979 and mid-1986. Yet this cannot necessarily be interpreted as uniform support for all welfare programs. In fact, the author argued that there are important differences in the level of support for the various components of the welfare state. Therefore, policy makers would enjoy some freedom of action in altering unpopular programs, if these could be properly identified.

Balsom drew three conclusions from his analysis. First, the welfare state policies of opposition parties always appear to be gaining in attractiveness, but governments will never be able to satisfy the demand for these welfare services. Second, although many welfare state issues enjoy high electoral salience, they are unlikely to determine electoral outcome unless coupled with public urgency for a change of government. Third, the unpopularity of cutting welfare services is such that the welfare state is more likely to suffer from policies of attrition and neglect than from ideologically-driven cut backs in state provision. These three points suggest that the consensus on welfare provision remains sufficiently solid to ensure that political-strategic considerations will continue to triumph over any radical and ideologically-based programs for reforming the welfare state.

Discussion brought out two divergent views on the nature of the consensus about welfare provision in the UK. The first claimed that the post-war consensus, reflected in the work of Keynes and Beveridge, was based on a partnership of public and private provision as opposed to a state monopoly for providing services. From this perspective, the Fowler Reviews of social security simply proposed to redress the balance in favour of private provision. A second viewpoint claimed that there had never been complete agreement on the principles of the welfare state at the time of the implementation of the Beveridge recommendations between 1944 and 1950. The so-called consensus was in fact a conception of the welfare state that established itself as a dominant vision. From this perspective, it would be pointless to pursue an all-party consensus approach to enacting reforms, because the success of all major reforms in the past was based on a dominant vision, not on consensus.

The fourth paper in this volume was prepared by **Jonathan Bradshaw**, professor of social policy at the University of York. It analyzed two concepts of poverty, explained the different treatment of client groups dependent on social security, and provided an overview of the three main schools for the reform of social security in the UK.

Bradshaw explained that the concept of poverty used for the Beveridge Report and for the social programs implemented subsequently was based on the notion of minimum subsistence requirements. Critics of this notion developed a concept of relative poverty, or "relative deprivation", based on criteria for minimum participation in society. Although the latter concept proved useful in focusing attention on inequalities in income and wealth, it has made very little impact on policy formulation in the UK.

The author then described how the various groups that constitute 'the poor' are treated under the UK system of social security. Most of the registered unemployed, for example, depend on the means-tested supplementary benefit, the British social assistance scheme, because they no longer qualify for the unemployment benefit. Single-parent families are another group whose needs were not provided for adequately in the Beveridge foundations of social security. Although it was noted that the Beveridge Report, in its initial draft, provided benefits to single parents afflicted by "marriage injury", the fact remains that the final draft made no such provision, with the exception of widowed families. Gaps in the social security system also exist for the working poor. The absence of a stigma-free income supplementation scheme has made this group vulnerable to or even captive of the low pay and high unemployment conditions endemic to certain industries and regions of the UK.

Bradshaw explained the configuration of forces for change in the UK through his account of the three welfare reform schools. *Incremental selectivism*, as exemplified by the Conservative government of the UK, maintains that substantial income redistribution is neither possible nor desirable and that social security must be subject to fiscal restraint by targeting the benefits to those who most need help. Thus, advocates of this reform school have sought to make means-tested benefits the central element of UK social security, rather than the purely residual element intended by Beveridge. Critics of this approach have raised several problems, however, such as poverty traps and the administrative complexities associated with targeting and means tests.

The *incremental universalist* school, as represented by the Labour party, seeks a gradual or incremental reduction in the role of means tests by improving universal schemes and by reducing market-induced inequalities through minimum wage legislation. Critics argue that this strategy would undermine work incentives and would not be financially feasible. The *big bang school*, as represented by the Liberal-SDP Alliance and the Institute of Fiscal Studies (IFS), argues that the social security system is irredeemable by incremental change and that the only viable strategy is a one-shot integration of the personal income tax and benefit systems. Big bang schemes range from proposals to replace all universal benefits by income-tested ones to proposals providing a guaranteed income (with some element of universality) to all families. However, critics argue that neither type would meet with sufficient public approval.

On the basis of his analysis, Bradshaw concluded that British social policy will continue to be based on political rather than strictly economic considerations. Crucial decisions about welfare spending and other issues can be resolved only in the political process. From this perspective, governments must identify the set of political programs for which the electorate is prepared to vote and then decide on which program to adopt.

Discussion expanded on the proposals of the big bang school. It was noted that the guaranteed income scheme would be unlikely to offer adequate benefit levels (because of fiscal constraints) and could also lead to the institutionalization of low wages in the labour market. It was also added that there appeared to be a certain rapprochement between the proponents of big bang and incremental selectivist reforms: while a significant number of Conservative party supporters are showing interest in tax/transfer integration, the Liberal-SDP Alliance is also moving towards a more incremental selectivist version of big bang integration of taxes and transfers. Implicit in the discussion, and in support of both the Bradshaw and Balsom conclusions, was the understanding that social policy in the UK would continue to be governed by the dictates of the political process, rather than by purely ideological considerations. In light of this, it is appropriate to examine how the formulation of social welfare policy is conditioned by the demands and constraints of the political arena. This is the subject of the next section.

The Influence of the Political Process on Social Security Developments

Michael Mendelson analyzed the political-strategic factors conditioning the outcome of reforms and proposed illustrative reforms within the range of policy options deemed acceptable to the Canadian public. Mendelson is deputy minister of community services with the Government of Manitoba and was formerly involved in major social policy initiatives at the federal level.

The author explained the breakdown in the welfare state consensus in Canada in terms of the emergence of two competing views. According to the *traditionalist view*, the failure of the income security system to eliminate poverty points to the need for improved targeting to the needy, increased selectivity of benefits, and higher benefits delivered as a guaranteed income through the tax/demogrant system. Yet reform models based on this approach are unlikely to succeed, because they violate what Mendelson described as the three "outer limits" of the public's expectations about income security: (i) Canadians would not tolerate social security that provides an alternative to employment for a large number of people; (ii) middle-income groups would not accept significant reductions in their benefit levels in order to make possible greater targeting of benefits for the poor; and (iii) Canadians would not accept the large tax burdens implied by the traditionalist approach to institute programs from which they would be unlikely to benefit. The traditionalist approach is therefore incompatible with the social expectations of Canadians.

The *new radical approach* to reform claims that existing social programs have contributed actively to the poverty they were intended to alleviate. The basis for this claim is that the programs constitute barriers to participation in labour markets by reducing the incentive to work and to save for retirement. Hence, the new radicals advocate reductions in income security benefits as a way of increasing labour supply and economic efficiency. Reform models based on this approach, however, violate the minimum standards Canadians expect from social security – Mendelson's three "inner limits". The first of these requirements is a reliable safety net to prevent utter destitution. The new radical approach also violates the second requirement – a realistic approach to labour markets that does not justify the elimination of institutions, such as collective bargaining, on the basis of economic efficiency. Finally, this approach fails to accommodate the specific needs of cultural and social groups, such as Native people, that are alienated from Canadian society. Thus, in light of Canadian expectations, new radical models are no more feasible politically than the traditionalist models advocating extensive redistribution of income.

Mendelson argued that a new scaffolding of income security programs is required to provide for the needs of the growing number of groups that are falling through the social insurance safety net and are thus forced to rely on residual social assistance programs. Such a reform would make the social insurance system sufficiently comprehensive to effectively reduce the residual population that must rely on social assistance. This Beveridge-type conception of social security is driven by the concern that programs targeted exclusively to the poor are inevitably programs of poor quality.

As an illustration of such a reform package, Mendelson presented a nine-point program focusing on the redistribution of employment opportunities instead of income. It included, for example, a universal retraining scheme, giving all workers one or two retraining sabbaticals during their working careers, an adequate system of child care services, and a restructuring of income security programs so as to allow local organizations maximum flexibility in devising innovative approaches to delivering benefits. The package would be financed through increases in payroll taxes and savings from the reduced need for unemployment insurance and social assistance benefits.

More important, the reform package takes into account the political-strategic considerations in income security – that is, the minimum requirements and maximum limits of reform as determined by public attitudes and expectations. Consequently, the reform package can be deemed politically viable, because it would provide middle-income groups with benefits, such as retraining leave, that would justify their support for the tax burden required to fund the whole package.

The sixth paper in this volume was prepared by **Keith Banting**, professor of public administration at Queen's University. Originally presented as discussant's comments on the Mendelson paper, it analyzed the development of the two principal conceptions of the role of the welfare state in post-war Canada.

The first such conception predominated in the 1940-1965 period with the establishment of universal programs such as Old Age Security, Unemployment Insurance and Medicare – the *universal welfare state*. These programs were intended as a response to the mass drive for economic security arising from the rapid and unexpected changes in industrial society and aimed at avoiding a repetition of the hardships of the 1930s. The second objective of the universal welfare state was to foster social integration and cohesion, using social security as an instrument for moderating the intensity of social and regional divisions.

The mid-1960s saw the rise of a new vision of the welfare state to replace the universalist notion – the *redistributive welfare state*. This change was sparked by the re-emergence of anti-poverty campaigns and by the realization that the poor were not the major beneficiaries of universal programs. These programs were challenged, because they failed to narrow the income inequalities of modern society, even though the universal welfare state had never set this as its primary objective. The new emphasis on redistribution was reflected, in Canada, in the introduction of income-tested benefits such as the Guaranteed Income Supplement for the elderly and the Child Tax Credit for low-income families, at the expense of the universal Old Age Security and Family Allowance benefits respectively.

The economic experiences of the last decade – inflation, recession and soaring interest rates – reawakened a sense of economic insecurity in Canadians. Therefore it is no coincidence, according to Banting, that the current advocates of state intervention are returning to the universalist conception of Beveridge and Marsh. He referred to the Mendelson paper as a clear example of this orientation, with its objective of ensuring that the middle classes are prepared to support the cost of economic security for all by devising programs to provide benefits that are otherwise difficult for the middle classes to obtain. Banting lamented this retreat from redistributive concerns and argued that Mendelson's outer limits on redistribution underestimated the willingness of Canadians to accommodate incremental moves towards a more equal distribution of income. In the support of the redistributive role of the welfare state, the author credited income security programs with having offset the greater inequality in income distribution generated by the private market economy during the last recession.

Discussion pointed out that the distribution of earned income in the UK had been subject to even greater deterioration than in Canada, but it was noted that the country's income security system succeeded in compensating for only about two-thirds of this increased inequality. However, Mendelson argued that income maintenance should not be the only objective of income security. It should also give people the ability to participate as full members of society. From this perspective, his reform package provides benefits that the middle classes can purchase only from the public sector – security and leisure – in exchange for which they would be prepared to support a tax/transfer system that also provided benefits to low-income groups, the most important of which is employment, not just income.

The importance of political-strategic factors in devising a viable and sustainable reform package was also confirmed by the discussion. It was noted that real threats to the economic security of the middle classes made it possible for these groups to be co-opted into reform proposals for improving social programs and for effecting greater downward redistribution of income and employment.

The paper by **Julian Le Grand**, senior research fellow at the London School of Economics, tested the hypothesis that the middle classes are more capable than lower-income groups of defending and preserving the government programs from which they benefit, whether as users of services or as the suppliers (employees of the state) of the same services. This hypothesis was examined in light of the major ideological assault on the welfare state launched by the Thatcher government – that is, the attempt to cut public spending and to reduce other state intervention in the economy.

The ideological shift towards budgetary restraint started prior to 1979 with the popularity of the 'crowding out' theories of public spending and with the realization that state intervention could produce harmful results. The arrival of the Thatcher government added remarkable momentum to the assault on state intervention, but many areas of government activity never witnessed any reduction in subsidies or state provision. Le Grand attributed this to the role of the middle classes – the professionals, employers, managers and their immediate families. As users of welfare state services, these people have a stake in preserving or improving the services where their presence among users is at least as great as their importance in the population (22 per cent, 1971 Census). Education and the National Health Service are two examples. As employees of the welfare state, the middle classes also have a stake in preventing the privatization of those services where they constitute at least 22 per cent of the suppliers of services.

The actual pattern of public expenditures corresponded to the pattern predicted by Le Grand, with some exceptions. These exceptions were due to changes in needs (measured by the size of the client group) and possibly also to changes in the cost of services. The author reported on the results of a regression exercise that set out to explain changes in expenditure arising from the middle class effect as well as from variations in needs and in the cost of services. The results for the services supplied by the middle class showed that the middle class effect was not significant. For the services where the proportion of middle class users is high, the results showed a statistically significant tendency to cut non-middle class services sharply and to increase expenditures slightly on middle class services during the Thatcher period. (The earlier version of the paper, presented at the colloquium, included separate regressions for the Labour period (1974-1979) that contradicted the middle class hypothesis, but they were statistically weak relative to the results for the Thatcher period.)

In conclusion, Le Grand noted that the disproportionate influence of the middle classes in the political process is such that any concerted government attack on the welfare state could succeed only at the expense of those welfare benefits and services used intensively by low-income groups. That is, the burden of reduced welfare expenditures would be borne by the groups least capable of mobilizing opposition against government cutbacks.

It emerged from the **discussion** that Le Grand's definition of the middle classes does not to correspond with that used by Mendelson and other Canadian participants. For this reason, care should be taken when comparing the middle classes that Mendelson and others view as potential allies for social security reform with the middle classes that can most effectively defend the programs from which they benefit. Both concepts suggest, however, that middle classes are more effective than other groups in using the political process to defend their interests.

Participants also suggested that the targeting issue was more complex than implied by the Le Grand paper. The influence of the patrician element in the Tory party explains why the social assistance part of the safety net was maintained intact while the social insurance component (e.g., unemployment benefits) was cut back. Second, the middle class effect may have had positive repercussions for lower-income groups, partly because the middle classes can lobby more effectively for quality maintenance of services that also extend to other groups and partly because middle class services provide benefits that are more important to lower-income groups. For example, while all families receive free health services, the money value of these services represents a greater proportion of the income of poor families than it does for middle-class families. This was reinforced by the argument that the more a program is targeted to low-income groups, the greater tends to be the stigma attached to receiving the program's benefits. Thus, a universal program would benefit lower-income recipients at least to the extent that the reduced stigma would encourage higher take-up rates among those groups.

Finally, the middle class hypothesis was challenged with an alternative explanation of Le Grand's regression result. It was suggested that internal battles in Cabinet and Whitehall, and possibly other ad hoc influences, were more important than the middle class effect in explaining the preferential treatment given middle class services. A more serious challenge to Le Grand was that the middle classes can be harnessed to serve a valuable function. Social welfare reformers could succeed in mobilizing political support for reform packages urgently needed by low-income groups only if the reforms contained elements that elicit middle class support and thereby assure the long-term viability of reform.

The eighth paper was presented by **Jeremy Richardson**, professor of politics at the University of Strathclyde. It analyzed the ability of policy makers to mold the demands and expectations of particular groups and thereby to control the impact of these groups on policy and the wider public. In this respect, it reversed the direction of causality posited in the Le Grand paper, which had examined the ability of particular socio-economic groups to influence public policy.

Richardson examined how policy makers have managed the problem of unemployment, which public opinion ranked as the most important problem facing the UK. He asked why high levels of unemployment during the 1983 elections in the UK had little or no impact on the popularity of the incumbent Conservative government, contrary to the expectations of informed observers and analysts. According to the author, this reflected the government's ability to exercise a degree of damage control sufficient to sever the link between the problem of unemployment and government responsibility for it. This campaign to downplay the government's responsibility on the issue was carried out through a two-pronged effort: enlisting the co-operation of a wide range of organizations in the campaign against unemployment and skilfully lowering public expectations about the ability of governments alone to generate a significant recovery.

The first prong was the government's attempt to organize an unemployment industry by co-opting a variety of groups, including the Trades Union Congress, business corporations and voluntary organizations, into a network of public and private initiatives for creating jobs and training the unemployed. According to Richardson, this emphasis on "corporate responsibility" and on public/private partnerships had the effect of shifting a large measure of the responsibility for unemployment to the private domain. The second prong of the strategy was to lower public expectations about solving unemployment. This was accomplished partly through special training and employment measures, such as the Youth Training Scheme, which reduced expectations that school leavers should go straight to work, and partly through the government's message that unemployment in the UK was a product of the world recession.

Although Richardson attributed the political neutralization of unemployment to an explicit government strategy, the **discussion** questioned the existence of such a causal explanation. One alternative interpretation was that there was never any need to neutralize the problem, because the socio-psychological stress experienced by the long-term unemployed is sufficient to undermine their ability to organize and to articulate their opposition to government policies. Moreover, the stigma attached to the receipt of unemployment and supplementary benefits acts as a mechanism of social control by directing public scorn to and undermining the dignity and self-worth of the unemployed.

Other comments challenged the exact nature of the decoupling of unemployment and government's responsibility for it. It was noted that although unemployment ranked as the most important concern in the polls, it dropped to a rank similar to that for health, law and order, and other social risks when survey respondents were asked to identify the most critical issue in their own lives. This suggested that the unemployment problem had been only partially neutralized, because people appeared to hold the government accountable only for the social risks they encounter among their immediate families and friends.

The Nature of Policy Responses to Demographic Change

The paper by **the Honourable Monique Bégin** examined the implications for social policy of demographic trends and socio-political forces. The former minister of national health and welfare and holder of the Joint Ottawa-Carleton Chair in Women's Studies adopted a client approach to analyzing the social policy implications of demographic change. In particular, she emphasized the relative effectiveness of different groups in pressing governments to act on their concerns.

Bégin surveyed major trends such as declining fertility, population ageing, increasing labour force participation by women, and the changing composition of households. In this context, social programs in Canada aim at two fundamental objectives: (i) providing security against economic hardship, and (ii) assuring the universal accessibility of services – the 'social contract' perceived by the Canadian public.

The author analyzed the implications of the competition for spending priority between three main client groups in social policy. Clearly, the elderly have been the most successful in mobilizing political support for funding programs. The Old Age Security/ Guaranteed Income Supplement (OAS/GIS) benefit system and the Canada/Quebec Pension Plans are examples of programs introduced in the post-war period that have significantly improved the standard of living of the elderly. This suggests that the elderly will fare well in the bid to obtain increased financial resources for public health care and for other programs whose expenditures are expected to rise as the population ages.

Women are the second group jostling for priority in the social policy budget. Although not as successful as the elderly, they are making concerted efforts to improve the provision of child care, pay equity and other programs that make their labour force participation more equitable. The third client group, children, has been the least successful in mobilizing support and hence, most vulnerable to pressures for fiscal restraint. The traditional constituency pressing for benefits for children, the women's movement, has shifted its concerns to the issues raised above. In spite of this weakness of the child benefits lobby, however, issues such as declining fertility and substantial child poverty will continue to require urgent attention from policy makers.

Bégin concluded with an examination of possible alternatives for government policy. Two avenues for change were identified for the medium term: (i) conversion of the Child Tax Exemption into a refundable tax credit targeted at low-income families, and (ii) reappraisal of universal benefits (e.g., OAS) in light of the expected demographic pressures, on the condition that the savings from reform remain within the social security budget. As for comprehensive reform, Bégin offered comments on two proposals: (i) the Universal Income Security Plan, proposed by the Royal Commission on the Economic Union and Development Prospects for Canada, would be viable only if the income guarantees prove to be greater than the benefits currently provided to recipients; and (ii) the comprehensive Tax Policy Review (1986) launched by the federal government should be guided by the twin objectives of increased redistribution of income and greater benefits to the middle class. These comments on reform options serve to highlight the political-strategic prerequisites for successful reform.

The **discussion** elaborated on a number of themes in the Bégin paper. It was noted that even limited tax reform would require delicate negotiations between federal and provincial governments. This is because the tax collection agreements and the common tax base for the two levels of government are such that even converting a tax exemption to a tax credit cannot be undertaken without federal-provincial agreement. Otherwise, a substantial portion of the savings from eliminating the tax exemption would result in revenue windfalls for provincial coffers instead of serving to finance the new tax credit.

With respect to the implications of group effectiveness and demographic change, it was noted that the groups that have been most effective in lobbying for improved social programs in the past are also those whose relative importance in the population is expected to increase in the future. From this perspective, we could expect the elderly to obtain an even greater share of the social policy budget, but it is not clear if and how resources will be diverted from other groups. In fact, any reform initiative will continue to be subject to the social contract conditions for that area of social policy – in other words, the "inner and outer limits" of health care, immigration and other policy areas. While recognizing the need to respect the social contract, some participants did not pursue this analysis of competition between client groups and the implied disentanglement of the interests of the different groups. Instead, they argued that social policy is intended to deal not only with problems of poverty and unemployment but also with problems, such as health and drug addiction, that affect all income groups and that can be dealt with effectively only through universal programs. Hence, there is a real need for a "universalization of concern" rather than a disentanglement of client group interests.

The paper by **Shirley Seward**, director of the studies in social policy program at the Institute for Research on Public Policy, was originally presented as discussant's comments on the Honourable Monique Bégin's paper. It explored the implications of demographic change for the Canadian economy and public policy, with a special focus on the demographic and economic role of immigration.

The author summarized the major demographic changes that have occurred in Canada in recent decades. These include the maturing of the large and relatively well-educated baby boom generation, which has now reached labour force age; declining fertility since the early 1960s, which first slowed the rate of growth of the population and is now affecting that of the labour force; the gradual ageing of the population, along with a growing number of elderly people who are dependent on publicly provided income and services; and major fluctuations in gross immigration levels, which were relatively high in the open-door policy years of the 1950s and 1960s and much lower in the first half of the 1980s.

Projecting these demographic trends to the end of the century, Seward argued that it is likely that the population and labour force will age gradually; the rate of growth of the population and the labour force will decline (although both will remain positive); and whereas total population and labour force dependency ratios will decline, population dependency ratios will increase for the elderly population and decrease for the young.

Seward focused on the implications of these demographic trends to the end of the century by exploring two concerns: the capacity of the labour force to adapt in a changing economy and the burdens that will be placed on governments to provide programs such as pensions and health care to an increasing population of elderly people. She concluded that the labour force may become less flexible and adaptable as it ages, therefore making labour adjustment in a changing Canadian economy more difficult. Furthermore, the ageing of the population is also likely to increase the demands on public expenditure for programs such as pensions and health care.

The author argued that these economic and demographic pressures are forcing governments to reassess the nature of social welfare systems in Canada, and initiatives are already under way to reform social programs in the areas of income security, pensions and health.

These are, of course, the traditional areas of social policy, and reform is debated on the assumption that the direction of demographic change is inevitable. However, Seward argued that alternative policies – the encouragement of higher fertility and the setting of higher immigration levels – have the potential to alter demographic trends by affecting the size, composition and rate of growth of the population and the labour force.

Seward doubted that it would be possible in the Canadian context to encourage higher fertility through explicit public policy initiatives. However, she argued that immigration has played a key role in the past and may potentially play an even more significant role in the future. In particular, higher immigration levels would contribute to population and labour force growth, as well as bringing needed skills and expertise to the country. Thus, immigration has the potential to facilitate adjustment and to moderate changes in dependency ratios associated with an ageing population.

Seward concluded by emphasizing that discussion of social policy reform must be placed in the broader context of social-economic-demographic inter-relationships, and that solutions may well be found in public policy areas – such as immigration – that fall outside the traditional domain of social welfare systems.

Discussion of Seward's paper centred on two major issues. One UK participant suggested that immigration policy should focus not so much on desired levels as on the quality of the labour supply and the expectations of the immigrants. In response, Seward explained that Canadian immigration policy includes three classes of immigrants – the economic class, selected in terms of their labour market suitability; the family class, admitted on social grounds; and the refugee class, admitted for humanitarian reasons. Seward stressed, however, that members of the independent class are not the only immigrants actively engaged in the labour force and that highly skilled and educated immigrants are not the only ones making an economic contribution to Canada.

A second observation by a UK participant was that whereas in the UK immigration is viewed as problematic, in Canada immigration is generally perceived as having a positive impact on the economy and particularly on the labour force.

The paper by **Martin Knapp**, deputy director of the personal social services research unit at the University of Kent at Canterbury, examined the implications of the de-institutionalization of care and the privatization of state services in the long-term health care sector in the UK.

The move to reduce reliance on institutional provision of long-term care resulted in the diversion of resources from the institutional care to the community care sector at a time when evidence was emerging that community care services could be more efficient than institutional ones – that is, improved quality at reduced cost. Yet Knapp raised a number of practical difficulties encountered in such a transfer of resources. He noted that community services cannot be developed by simply transferring existing resources from institutional care. Instead, a large amount of double-funding is required to develop community care until a sufficient reduction in the number of patients in institutions begins to generate savings. Another difficulty arises because the effectiveness of community arrangements depends partly on the extent to which relatives of the clients are capable and willing to assume responsibility for people who would otherwise be in institutions. Yet another problem, according to Knapp, is that clients' social security benefits often serve as full payment for services in private residential care and nursing homes. This form of third-party financing of private care introduces perverse incentives; public health authorities attempt to reduce their own costs by placing clients in community care institutions, where there is pressure to prevent care costs from exceeding the ceiling imposed by the social security benefits, regardless of the impact on the effectiveness of services.

Knapp also offered several observations about the efficiency implications of privatizing health care. He noted that scant evidence exists regarding the effect of privatization on the informal care sector. It is not known, for example, whether greater reliance on the private or voluntary sector will increase the care burden thrust upon unwilling informal caregivers or whether charitable donations can expand to compensate for the reduction of state funding. Knapp also underlined the possibility that contracting out may lead to increased polarization in the private sector as some homes for the elderly are forced (by the social security payments ceiling) to lower the quality of their services, while the elderly with sufficient resources continue to purchase high-quality care. In yet another example of the considerations raised by privatization policy, the author noted that comparisons of efficiency in the public, private and voluntary sectors have failed to distinguish cost-effectiveness from economy (cost reduction). Therefore, the actual cost advantage of the non-public sectors, while it probably exists, has been largely exaggerated. This advantage will probably disappear in the long term, because the non-public sectors historically have accommodated the less 'difficult' or dependent clients. In light of these difficulties with privatization and de-institutionalization, the author concluded that the research currently available suggests that neither policy prescription provides definite long-term solutions for the chronic health care sector.

The discussion confirmed Knapp's argument that people served by community services may be very different from those in institutional care. Moreover, it was noted that even if unit costs for community care are lower (for clients with the same characteristics), total costs will be higher because more people would be eligible for this kind of care, implying an increase in caseload. In other words, community care may be more efficient, but less economical.

The final paper in this volume was prepared by **Michael O'Higgins**, reader at the Centre for the Analysis of Social Policy, University of Bath. It analyzed how political institutions respond to demographic pressures, distinguishing between the government's fiscal capacity to adapt to these pressures, its ability to recognize the complexity of the issues and, ultimately, the quality of the process of adaptation to demographic change.

The author set the analytical context by explaining that political institutions in the UK can adapt to demographic pressures only by modifying spending priorities within the social policy budget. In other words, it appears unlikely that the social policy budget will benefit from additional resources, as it did in the immediate post-war period when the growth of social expenditures exceeded the economy-wide growth rate. Therefore, the social policy agenda will be governed by considerations of fiscal restraint, spending priorities and institutional rigidities.

In a survey of expected demographic changes in the UK, O'Higgins concluded that the next decade and a half will be a period of relative stability. Demographic pressures have peaked, and their impact on the size of the labour force has already been accommodated – the baby boom generation has been completely absorbed in spite of high unemployment. Since the social policy budget has already accommodated these pressures (resources having shifted from education to the National Health Service (NHS) and social services), the author asked whether institutions could be confident about their ability to respond effectively to complex issues of long-term planning in the area of demographic change.

O'Higgins responded by analyzing recent developments in two areas of social policy – NHS expenditures and pension reform. In the former case, the author showed how evidence of resource shifts to relatively deprived social programs could be an inadequate basis for assessing the quality of policy responses to demographic change. As an illustration, it was pointed out that the substantial increase in financial resources made available to the NHS went disproportionately to the family doctor service, while the hospital sector remained chronically underfunded.

The area of pension reform provided an even more instructive example of the ability of the political system to deal with the complexity of long-term planning. Since its passage in 1975, the Social Security Act had been the object of much criticism because of its unforeseen expense and its perverse redistributional effects, both of which were due largely to state underwriting of occupational pensions. Yet when the Conservative government attempted to privatize the public pension system by proposing to abolish the State Earnings Related Pension Scheme (Social Security Review, Green Paper, 1985), it met with widespread opposition to what was aptly perceived as an ideologically-motivated reform. Although the government withdrew its initial proposals and submitted a second set reflecting the informed criticism of previous years, the Labour Party and community-based groups continued to oppose the government initiative, because it was viewed as a second attempt to dismantle public provision and not as it really was – a reasonable adaptation of a defective structure.

According to O'Higgins, this distortion of the policy formulation process arose because the original Conservative reform proposals challenged a fundamental part of the pension system and thereby coloured the nature of the subsequent debate. He thus concluded that policy responses to demographic pressures fall far short of recognizing the complexity of issues and are rarely based on long-term analysis of the problems at hand. Therefore, any successful attempt to adapt the structures of the welfare system to the changing needs and conditions of society requires a framework of consensus on the principal features of that system.

Discussion expanded on the implications of the demographic trends surveyed by the author. It was suggested that in the years prior to a sharp rise in dependency ratios, it would appear that the country was sufficiently wealthy (because of the size of its labour force) to allow politicians to propose costlier programs without a view to the rapid ageing of the population. This possibility represents a real danger for Canada, whose working-age/dependent population ratio is expected to drop slightly by 2006, followed by a sharp drop by 2031. It was added that an extra source of revenue for the government could be built in through an active policy for increasing the proportion of the labour force that is employed.

Conclusion

This section attempts a synthesis of the main points that emerged from the colloquium. It gives particular attention to the themes that provided continuity and coherence to the variety of issues addressed at the colloquium.

The **integration of personal taxation and transfer programs** in the area of income security was a prominent issue. Several participants thought it a desirable direction for future policy initiatives, especially in view of the current Tax Policy Review and the inter-departmental review of federal social tax/transfer programs, both in Canada, and given the comprehensive tax/transfer integration advocated by the Liberal-SDP Alliance in the UK. It was pointed out that tax/transfer integration is not in itself an ultimate objective of income security reform, but rather a delivery mechanism for attaining important objectives, such as removing poverty traps and facilitating welfare recipients' re-entry into the labour market. There are two types of tax/transfer integration: structural integration of the different components of taxation and benefit schemes and strategic integration, whereby the same components could be aligned in order to avoid disincentives. The latter form of integration enjoys many of the advantages of the former while at the same time appearing more politically feasible.

Tax/transfer integration can also be an important tool for avoiding some of the pitfalls of the universality/selectivity debate. To the extent that universal benefits and services have been proposed as a means of eliminating program stigma and ensuring the maintenance of quality in the long term, the delivery of benefits through the income tax system will be perceived as and have the same advantages as a universal program, because it is well known that the bulk of those who interact with the income tax system are working people. Just as crucial, however, is the fact that tax/transfer integration would generate some of the savings that normally result from income-tested selectivity. Integration schemes are in fact mechanisms for ensuring that the middle class participates and has a stake in social programs while containing the size of governments' social policy budgets. The Child Tax Credit introduced in Canada in 1978 is a small-scale example of the advantages offered by tax/transfer integration, although it has yet to be amended to respond to monthly (as opposed to yearly) fluctuations in income.

Improved **targeting of benefits** to the needy, which is also an advantage of tax/transfer integration, is another theme that pervades social policy debate on both sides of the Atlantic. It is a central tenet of the incremental selectivist school of reform, and it features prominently in the Social Security Reviews launched by the Conservative government in the UK, as well as in the terms of reference for the review of social tax/transfer programs initiated by the Conservative government in Canada. As indicated by Bradshaw and other participants, this reform approach can create important problems, including poverty traps and the risk that "programs for the poor become poor-quality programs". While many of these problems could be addressed by tax/transfer integration, the danger remains that such integration may not prove politically feasible.

Related to the targeting issue is the question of whether greater **redistribution of income** is desirable. Improved targeting of benefits can meet at least two objectives: (i) fiscal restraint, when increased caseloads necessitate additional public funding, and (ii) greater redistribution of income to low-income segments of the population. However, both Bradshaw and Mendelson pointed out that income maintenance and income redistribution are not the only objectives of income security. Such a system should be a vehicle for meaningful participation in society. This implies that the redistribution of employment may be a more important goal for income security reform, in so far as the final effect on welfare recipients and on the poor in general is concerned. However, this does not obviate the need for pure income provision. In fact, both Johnson and Bradshaw point to the necessity of an income-tested supplementation program for the working poor, which could take the form of a non-stigmatic program such as the GIS currently directed to the elderly in Canada.

With respect to the **status of working women**, job redistribution may not hold the same appeal, relative to income redistribution, as was suggested above. The last two decades have witnessed a substantial redistribution of employment towards women, although women currently make up a much larger percentage of both the working poor and the welfare poor. It is not clear to what extent this paradox is the result of the disintegration of extended and nuclear family structures or of the necessity of maintaining two-earner status in order to remain above the poverty line (given the low-pay ghettos for women in the labour market). Nevertheless, there remains a case for improving women's access to jobs. Moreover, it was suggested that the policy that would have the most immediate effect on alleviating poverty among women is an increase in minimum wages. Therefore, it would not be unjust to conclude that one of the potential policy directions emerging from the colloquium, with the support of a significant number of participants, was that an attack on poverty and income inequality requires direct intervention in the private market economy.

Several colloquium papers discussed how **political institutions** grapple with these issues. Both Balsom and Bradshaw concluded with the observation that these issues can be resolved only in the political arena. The implications of this statement, when considered in conjunction with the Richardson and Le Grand papers, are explosive. Richardson indirectly confirmed the Le Grand hypothesis about the relative strength of the middle class lobby, by showing the unemployed to be comparatively vulnerable to government initiatives to neutralize the electoral impact of unemployment. It may well be, however, that Richardson overemphasized the importance of an active UK government policy intended to silence the poor and unemployed. The same effect could have resulted from the absence of Balsom's "necessary conditions" for public opinion to influence voting behaviour: that is, the issue must be clearly understood by electors, and one party must enjoy the exclusive confidence of voters in its ability to handle the issue. This analysis in turn raises the theme of the disjunction between opinion surveys and voting behaviour in the polling booth. The significance of this disjunction has been to caution policy makers and politicians against relying exclusively on opinion polls as an indication of which policy initiatives would reap most electoral benefits.

Despite this disjunction, political parties nevertheless face the challenge of **mobilizing support for reform**. This was perceived as one of the most important challenges for social welfare reformers – how to mobilize support for reform by tapping the positive and altruistic features of people's nature and by sensitizing them to their own stake in reform. Mendelson approached this problem by defining what he thought to be the minimum requirements and maximum benefits Canadians expect and are willing to tolerate – respectively, the inner and outer limits. He proceeded to formulate a package of reforms within these limits that could be buttressed by the earning power of middle-income Canadians. In order to do so, Mendelson's reform package provided the middle classes with commodities they can purchase only from the public sector: income security and leisure. Although there may be other formulas by which to 'purchase' middle class support for reform, the general consensus was that some method is required to encourage middle-income groups to take an active interest in the reform package if that package is to be implemented and sustainable in the long term.

This consensus found significant support in the Le Grand paper. It demonstrated that the **relative effectiveness of the middle classes** in defending from expenditure cutbacks those social welfare services from which they derive benefits is at least proportional to their weight in the population. Although the evidence in support of this hypothesis was strong for the period of Conservative government and weak for the Labour period in the UK, it provides substance to the well-known arguments that certain groups can be very effective in posing obstacles to reforms that infringe on their interests. The Bégin paper, for example, argued that the elderly in Canada were by far the most effective group in lobbying for increased benefits and in undermining initiatives for reducing the same benefits.

The politics of group effectiveness also relates to the discussion of **policy responses to demographic change.** As implied by the Bégin paper, the expected increase in the demographic importance of the elderly may further sensitize politicians to the needs of the elderly. Alternatively, it is possible that the issue of declining fertility may spark an otherwise untenable constellation of forces—including the traditional pro-natalist lobby and the women's movement—pushing for improved support services for women, ranging from child care to employment assistance and training measures. This could stem a further decline in fertility and also permit continued increases in the labour force participation of women.

The **quality of policy responses** is just as important as the actual direction of policy. O'Higgins showed that policy responses to demographic change can be qualitatively unsound in the absence of long-term analysis and sufficient recognition of the complexity of the issues. The implication is that government initiatives to remedy problematic situations can often frustrate the very groups whose lot they were intended to improve. This is the case when the policy formulation process is not set within a framework of consensus on the principal features of the social welfare system. In other words, a rational and informed policy debate is not possible without at least a dominant vision of the welfare state, because the debate becomes burdened with ideological considerations that obscure the real issues and overlook their complexity. In this context, the Knapp paper presaged the O'Higgins argument by showing that de-institutionalization and privatization are not the panacea for demographic pressures that they are sometimes made out to be. This is because there is insufficient research to support these broad policy options in such a complex area as long-term health care policy. It should therefore be noted that Balsom's explanation of the change in the nature of the welfare state consensus, and particularly the fierce electoral competition over state intervention, lends support to the O'Higgins argument about the apparent inability of the political system to recognize and respond to the complex requirements engendered by demographic change.

The colloquium deliberations brought out both diversity and similarities in the Canadian and UK approaches to social welfare policies. They also provided the basis for subsequent exchanges on policy matters, since the participants demonstrated a mutual interest in the existing programs and in continuing policy discussions in Canada and the UK. Finally, the colloquium provided participants from different professional backgrounds with a more comprehensive perspective on social policy. From this view, the discussions constituted a forum for exchanging and clarifying ideas with a view to contributing to the quality and direction of policy responses generated by the political process.

I

Historical Developments and Forces for Change

Social Policy in Canada: The Past as it Conditions the Present

A.W. Johnson

Prefatory Note

A.W. Johnson, the author of this paper, has been a sometime observer, sometime participant, on Canada's social security scene since 1955. First as a public servant in Saskatchewan, and then, after 1964, as a public servant in the Government of Canada, he was an observer/participant on the federal-provincial scene during the evolution of social security policy from 1955 to 1968; he was involved in the beginning of Medicare, provincially and federally, in 1962 and in 1966; he was a participant in the developments in federal-provincial relations from 1964 to 1970; he was a late witness to the emergence of changes to unemployment insurance in 1970; and he was a participant in the social security review of 1973-1976. The perspectives reflected in this paper are bound to have been affected by these, his personal experiences, and he wants to caution the reader accordingly.

Having said this, the author has been the beneficiary, since he prepared the first draft of this paper, of conversations with some of the leading participants in the evolution of social security policy since 1945 – including Robert B. Bryce, George Davidson, Tom Kent, Claude Forget and Marc Lalonde. He expresses his appreciation to them, as well as to the authors of certain of the major books and *articles on social policy and federal-provincial relations – including Keith Banting, Kenneth Bryden, Dennis Guest, Leonard Shifrin and Richard Simeon. The author, however, remains solely responsible for the interpretation of the events here recounted.*

Introduction

The purpose in this paper is to tell the story of how social security policy has evolved in Canada since 1945, and in the doing of it to reflect upon some of the forces that lay behind its evolution. The worth of recalling this story lies not only in the fascination of how public policy is made and evolves, but also in what we might learn about the making, and the directions, of social policy in the future.

To attempt to write a 'biography' of 40 years of social security policy in some 40 pages is a daunting task indeed. But there are compelling reasons for trying. To do so in book form would be to court the danger of suffusing the essence of the story in too much detail. To do so in article form would be to risk constructing little more than a descriptive chronology.

But a price has been paid in the choice I have made. I have had to confine myself almost entirely to the national perspective of social security policy in Canada – which means I have said little of the policy pioneering in the provinces, particularly in Saskatchewan and Quebec. These are stories that need to be told, for the full Canadian story will not be complete until they are. For now, however, the national perspective will have to suffice.

Other prices, too, have been paid. I have had to be impressionistic in the telling of the story, without (I hope) falling prey to revisionism. I have had to be selective, while trying at the same time to avoid distortion. And I have had, above all, to keep the cataloguing of the story from dulling the lustre of its essence. For there is here, I must say, a great story-line.

The Post-War Dream

I begin with the year 1945. Canada, like a good many other countries, emerged from World War II with an insistent determination never again to endure another depression, 1930s style. What is more, Canadians had learned during the war that governments were able, in moments of crisis, and when moved by an all-consuming goal, to lead the country to high levels of economic activity and employment.* And lest there be any doubt about this, Canadians had learned at the same time that there now was available a new arsenal of economic policy, which would make possible the realization of these goals of growth and high levels of employment.

Now obviously it wasn't as simple as this. The high levels of production achieved during the war years had been accompanied by a rigorous regime of price and wage controls, and abnormally high levels of taxation. And the transition to a peace-time economy without these policies would be difficult indeed. But the optimism and the confidence were high – that was clear.

This was reflected in the rash of reports on the kind of society that should be built after the war. There was the Marsh Report on Social Security for Canada, which proposed a complete social security system (1943); there was the Heagerty Report on health insurance and public health (1943); there was the Cassidy Plan proposed by Professor Harry Cassidy in his book *Social Security and Reconstruction in Canada*; and, influencing all of these, there was the internationally known Beveridge Report of Great Britain (1942).

Public debate of these reports was widespread, with important interest groups endorsing them: the Canadian Welfare Council; the Canadian Labour Congress; agricultural organizations; health organizations; and social policy theorists in Canada's universities. Even the Canadian Medical Association declared itself in favour of the principle of health insurance (1943). There were opponents to what was proposed as well, of course, notably those who feared for provincial jurisdiction and those who were apprehensive about the impact on individual initiative and on the market economy of wide-ranging social security systems. But these voices tended to be suffused in the clamour for a new society.

The winds of political change, in short, were blowing in the direction of major reform. Saskatchewan was, in no small sense, the harbinger: it had elected North America's first socialist government, in 1944, and was to serve for 20 years as the crucible and the catalyst of change. But elsewhere, too, the Co-operative Commonwealth Federation (Canada's socialist party) was threatening the status quo: in Ontario, for example, the party had elected 34 members out of 90 in the provincial legislature in 1943. And these events were to affect the politicians and the policies on the national stage.

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* The Government of Canada put it this way: "the demonstration of the potentialities of the Canadian economy has been one of the outstanding features of the past five years" (Green Book on Reconstruction, 1945).

What was called for, however, if Canada's new-found optimism and determination were to be realized, was a grand new design, to which the *national government* would commit itself—a design that would articulate the nation's aspirations in concrete goals and would be capable of converting those goals into social and economic reality.

Well, the grand design was indeed forthcoming, thanks to a small band of policy idealists and public service innovators. It took the form of essentially two documents: the White Paper on Employment and Income, which committed the Government of Canada to a new economic order; and the Green Book on Reconstruction, which promised a new social order. Comprehended within these documents were the Unemployment Insurance Plan, which had been enacted in 1941, and the Family Allowances plan, which had been approved by Parliament in late 1944. Lying behind the White and Green papers were the bold political promises of a "charter of social security for the whole of Canada", contained in the Throne Speeches of 1943 and 1944.

The plans put forward by the Government in its White and Green papers were disarmingly simple in their essence. High levels of employment and income would be assured; the family income flowing from employment would be supplemented by the new universal Family Allowances Plan; social insurance plans would provide for the contingencies of sickness and unemployment; an income support plan would be established for the seasonally and longer-term unemployed; and the exigency of age would be provided for through a universal old age security plan. It was indeed a bold and broad blueprint.

The Government's primary goal, to say more about the blueprint, would be "to maintain high and stable levels of employment and income". This assurance of employment for the vast majority of Canadians would, in turn, assure to them the flow of income that so clearly was—and is—the cornerstone of any social security system. To provide for the *adequacy* of family income, there existed minimum wage laws across Canada (which had been enacted by the provinces and the federal government after World War I), and there now was the universal Family Allowances Plan, which would supplement family income on the basis of family size.

The origins of the Family Allowances plan, it must be said, did not lie in any decision to assure family incomes of specified minimum levels across Canada. Rather, they lay in the fact that Canadians were, by 1944, chafing under the nation's strict wage control system, to the point that something had to be done to relieve the pressure on family income. The choice lay between relaxing the wage controls, or introducing a system of family income supplementation, taking account of family size. The family allowances route was chosen, clearly for the reason that the benefits would flow to families with children, but also because family allowances would stimulate consumer demand when the war ended – it being widely assumed that there would be a slump in the economy when that time came.

The second cornerstone of the Government's social security blueprint was a twinned system of unemployment insurance, and assistance, to care for the income needs of people who were unemployed, or who were working only intermittently. (Manifestly temporary and seasonal unemployment would exist, even in an economy where high and stable levels of employment prevailed.) The central measure for providing this income support would be the Unemployment Insurance Plan (1941). Now, the establishment of this plan had not been easy, for social insurance and assistance clearly lay within the constitutional domain of the provinces. But the times had been such, given the war and the depression, that the provinces had been prepared to accept a constitutional amendment, to give to the national government the power to establish an unemployment insurance plan. This was true even of Quebec – always the province most concerned about its constitutional jurisdiction – thanks in no small measure to the election there of the Godbout government, which was of the same political stripe as the national government.

The plan, which was enacted in 1941, clearly was founded on the insurance principle – which is to say the coverage of the plan did *not* extend to employment that by its nature was intermittent or seasonal in character, nor did it extend to employment in enterprises where there seemed to be virtually no risk of unemployment. So whole industries were excluded – agriculture, fishing, forestry, and public service, including teaching.

What was needed, given this decision, was a separate plan to provide income support to those who did not qualify for unemployment insurance or, for that matter, whose benefits had run out. Such a plan was indeed proposed: it would be administered by, or associated with, the Unemployment Insurance Commission, but it would be financed not out of the Unemployment Insurance Fund, but out of the Consolidated Revenue Fund. The unemployment assistance proposal was less than precise as to the levels of the benefits: what *was* clear was that the benefits could not be based upon family income, or need, since to do so would have been to place the plan firmly in provincial jurisdiction – which, of course, is what ultimately came to pass.

These were the measures that would look after the contingency of unemployment. The third cornerstone of the new social security system was a pair of measures designed for the contingency of old age or retirement. Old age pensions had, of course, already been legislated in 1927, under a plan that was the product of the now legendary negotiations between Labour MP J.S. Woodsworth (later to become Canada's first socialist leader) and Prime Minister William

Lyon Mackenzie King. By 1945, however, the plan had become hopelessly inadequate. To convert the scheme to a full social insurance plan, which was the preference of federal ministers as well as the Department of Finance, would have required the negotiation with the provinces of another constitutional amendment – contributory pension plans still being a matter of exclusive provincial jurisdiction. And seeking such an amendment was seen to be undesirable. So the decision was taken to propose a two-tier system: a universal old age security plan, under which every Canadian over 70 years of age would be entitled to a federal pension paid out of the Consolidated Revenue Fund (a plan that could be legislated by Parliament under its constitutional spending power); and a federal-provincial (shared-cost) pension plan, based on need, for those between 65 and 70 years of age.

The fourth cornerstone of the grand design was a proposal for a nation-wide health insurance plan, comprehending both hospital and medical care. The proposal contemplated the legislation by the provinces of provincial health care plans, with the federal government meeting roughly 50 per cent of their cost. Given the differing states of preparedness of the provinces, and the magnitude of the task of introducing health insurance, there was to be provision for the provinces to phase in their plans. Saskatchewan, in fact, started its hospital insurance plan in 1947, well before federal assistance had become available. But ultimately health insurance was to be national in scope and in character.

This, then, was the post-war vision for social security in Canada:

- a plan for high levels of employment and income – obviously universal;
- a plan for the universal supplementation of family income, based upon family size, but not upon income;
- universal, or near-universal, social insurance plans to provide for the contingencies of unemployment and sickness – and, in the case of the aged, a universal old age security plan, plus an income support plan for those aged 65 to 70;
- an income support plan for the seasonally and longer-term unemployed.

The post-war blueprint now looks quite remarkable for its time, does it not?

Now, I know it wasn't as clear and unambiguous as this brief recounting makes it sound. I know, too, it wasn't as widely supported, politically, as I have made it sound. Most important, I know it was a blueprint of *proposals*, not a plan for early or immediate action. Indeed the whole of the plan was tied to a federal proposal that the provinces would step out of the personal and corporate income tax fields (plus succession duties), to render it possible for the Government of Canada to finance the new responsibilities it proposed to assume. In return for this rental of their taxing powers, the provinces would be paid a flat per capita amount, to be escalated over the years. When the provinces – at least the key ones – refused to go along with this tax rental plan, the Government no longer felt bound by its social security proposals. But it remains that the social security proposals of 1945 did come to serve as the nation's blueprint for the future, particularly during the 1950s and 1960s.

The 1950s and 1960s

It is not surprising that these years are thought of by many as the golden age of social security in Canada – and by some as the spendthrift decades. After all, it was during these years that nation-wide health insurance was introduced; that pensions for the aged were made universal, more generous and at least partly contributory; and that the federal government first began supporting provincial social assistance plans for the longer-term unemployed, for the disabled and for the blind.

Another, and less idealized, way of looking at the 1950s and 1960s – or less agitating, depending on your point of view – is to look on them as the implementation years, the years when the grand post-war design was incrementally put into place. And in no small sense this is so. In another sense, however, it must be acknowledged that there were some important innovations as to *how* the 1945 objectives were realized. I refer, in particular, to the use of new vehicles for providing income support to the retired and the elderly: the introduction of the Canada and Quebec Pension Plans, and the guaranteed annual income (the Guaranteed Income Supplement). I refer, too, to the amalgamation of provincial social assistance plans for the disabled, the blind, single mothers, and the longer-term unemployed, into a single social assistance plan, under the umbrella of the federal Canada Assistance Plan.

I must add to these policy developments during the 1950s and 1960s one other major development that affected social policy then and now: the emerging shift in constitutional attitudes among the provinces concerning the use by Parliament of its spending power to achieve certain national social policy goals. To the uninitiated, this may sound arcane – and it is – but it will become clearer as our story develops.

The 1950s began with the landmark introduction of a universal Old Age Security plan (1951). Its birth was not easy, despite the fact that it had been promised some six years before. The difficulties centred on the debate over the issue of social insurance *versus* universality. The prime minister and his colleagues, encouraged by the Ministry of Finance, preferred, as they had in 1945, a contributory pension plan over a universal one. And they were supported in this by the more articulate business groups. But the 'left', to generalize, supported universality – led, notably, by the CCF and the Canadian Congress of Labour, groups that carried a good deal of weight in those times.

To resolve this political dilemma – of universality versus social insurance – the prime minister, Louis St. Laurent, appointed a parliamentary committee to report on the question (1950). The committee, chaired by a man who was to become the premier of Quebec, Jean Lesage, and led most actively by Senator Croll of the Liberals and Stanley Knowles of the CCF, came out with a report that tilted the decision in favour of universality. And so it came to be that the Government opted for the Old Age Security plan.

There were other forces at work, in addition to the political, that brought this about. Demographically, the proportion of the population over 70 years of age had been rising steadily since 1921. Social attitudes, too, played a part: the depression had left, as part of its legacy, a loathing of means tests as the qualifying barrier to social assistance of any kind. Universality was seen as the answer to the means test. All of these forces, in a confluence that can simply be described as "the times", led to the legislation by Parliament of the *Old Age Security Act*, in 1951.

One might think that such a plan lay well within the constitutional powers of Parliament. After all, what was involved was flat payments to everyone aged 70 years or more – quite clearly a spending power measure. Even the imposition of earmarked taxes for the purpose of financing the pensions – which was seen at the time to be desirable – would scarcely make the plan a contributory social insurance plan. But Prime Minister St. Laurent insisted that a constitutional amendment was called for. So the provinces were canvassed as to whether they would agree to one, and all of them did. There was one qualification: Premier Duplessis of Quebec insisted that the provincial power to legislate contributory old age pension plans must take precedence over the new federal power. Thus it came to be that any national pension plan that might be established by Parliament could be superseded in any province by a provincially enacted pension plan. It was a provision that was to have important consequences in the future.

The second major program introduced in the first half of the 1950s was the *Unemployment Assistance Act* (1956) – a new version of the promised income support plan for the longer-term and seasonally unemployed. Unlike Old Age Security, it can scarcely be graced by the adjective "landmark", for it amounted in essence to little more than a plan for the federal financing of provincial social assistance for the employable unemployed.

This measure may well have been a great step forward in relation to the detested relief measures of the 1930s, but it contained little in the way of policy innovation. Gone was the suggestion that unemployment assistance was a logical adjunct to the unemployment insurance program – providing income support or supplementation for those who did not qualify for UI – and therefore a proper part of the federal responsibility for the unemployed. Gone – or absent – was any suggestion that the federal government should prescribe the key characteristics that would be required of provincial social assistance plans if they were to qualify for federal support – such as, for example, financial incentives for the unemployed to work their way back into the active labour force, or the provision of training and mobility allowances and other social services to achieve the same end.

One must be careful, however, not to be too critical, for the architects of the unemployment assistance plan were faced with several major obstacles. First, the Government was no longer as ready as it had been in 1945 to accept full responsibility for the costs of unemployment – though the provinces were pressing it to do just this. Second, even if the Government *had* been prepared to attempt to realize its 1945 proposals, the policy instruments for implementing a federally administered income support/supplementation plan were far from self-evident. Moreover, the provinces would unquestionably have had constitutional objections had there been any suggestion of federal administration: what they had in mind was federal contributions in respect of the costs of unemployment they were bearing under their social assistance plans.

To accept this proposition – that federal contributions should be made to provincial unemployment/social assistance plans – was neither to accept nor to reject the notion that the federal government should have a major hand in designing those plans. It was evident that the federal government could use its power to spend for the purpose of making conditional grants to the provinces. But there were certain limits on the use of this power, which had to do with how detailed the federal conditions could be (in prescribing the program design that would be required). Where these limits lay was (and remains) far from clear. All that was known was that if the conditions were too detailed, they would be declared by the courts to be tantamount to legislation, and therefore unconstitutional. So it would be understandable if the Government was cautious about prescribing the details of provincially administered income support/supplementation plans (as we think of them today). A simple 50 per cent contribution to provincial social assistance plans avoided the question.

The third cluster of federal or federal-provincial programs introduced in the early 1950s had to do with income support for the disabled. The *Blind Persons Act* of 1951 and the *Disabled Persons Act* of 1954 provided, as did the *Unemployment Assistance Act*, for the payment by the federal government of 50 per cent of the costs of provincial programs designed for these categories of persons. While it is possible to perceive in these measures the precursor of a full, nation-wide guaranteed income for those in society who cannot work, they did not come to that. The reasons were the same as those just discussed – the availability of constitutional, policy, and financial means. This was seen to be so even though the prime minister was a good deal more supportive of federal assistance for the blind and disabled than he had been for some of the other measures Health and Welfare Minister Paul Martin was pressing upon him.

The Forces at Work on Social Policy

Now, I recognize I have devoted a good deal of time to the decade from 1945 to 1955, in relation to the 30 years I have yet to cover. But I have done so for a reason. One finds in the forces at work in those years a great many of the ingredients of the whole of the history of social security in Canada. There are four that stand out, at this point in my story. First, there is the presence – or absence – of a major confluence of external forces that would lead society to expect, or to search for, some kind of protection from the vicissitudes of a world they cannot control: a combination of events that would lead the citizens to look to the state to provide such protection – almost as a benefit or a right of citizenship. Such a confluence of forces certainly was being felt in 1945: the depression of the 1930s, of course, and the war. It was they, above all, that set in train the social expectations and political expressions that finally resulted in the social security measures I am describing. I don't suggest that such forces necessarily lead to an *expansion* of the public sector: the opposite can occur, as we see when we come to the 1970s. But confluence of events there must be, if there are to be major innovations and changes in public policy.

Second, lying behind these events was a changing society – a society in which the pressures on the state to take a hand in social issues was increasing. By 1945 the Canadian community had become more industrialized and urbanized than it had been in earlier years. The mobility of younger people had increased, too, during the depression and the war. The consequence of these changes was that the structures of the past for caring for the needy, the old and the disabled – the extended family, the farm, and the village – were slowly being eroded. New means would have to be found for expressing society's sense of responsibility for these people – a fact that had been demonstrated repeatedly during the depression, when the number of needy had increased so dramatically.

A third major force at work in the development of social policy in Canada, as we have seen, is a constraining one: the Constitution. There was developing, and today has developed, a great reluctance on the part of the provinces – and particularly and notably Quebec – to accept any attenuation of their constitutional powers over social security. Only a major shock to the Canadian economy or polity, it seems, will bring the provinces to accept constitutional amendments that render feasible national social security measures. Perhaps this would occur, too, as a consequence of major social and political evolution – of changes of a dimension that would qualify them as shocks. Whatever the case, it certainly was the shocks to the Canadian economy and society that led to the introduction of the Unemployment Insurance and Old Age Security amendments. Another side of this same constitutional face was, and is, the continuing hostility of Quebec, along with the emerging hostility of the other provinces, to the use of the federal spending power to support nation-wide, but provincially administered, social security programs. This hostility has generated, at the very least, timidity on the part of federal governments to use their spending power and, at most, by the 1970s, a paralysis with respect to its use that amounts to disuse.

A fourth important ingredient of change in Canada's social policy, as our story has begun to suggest, seems to have been the availability, or non-availability, of appropriate and, where necessary, new policy instruments – instruments that will make policy innovation possible, even in the face of constitutional constraints. More than that, they must be policy instruments that make policy innovation possible because they don't raise the ghosts, or anger the gods, of Canada's past. I have in mind the use of universality as the policy instrument that put to rest one of the ghosts of the past: the much-despised means test. And I have in mind the use of social insurance, a policy instrument that respects the prevailing 'work and save' philosophy of Canadian society – one of the gods from Canada's past.

But I must return to the story of social security policy in the 1950s and let it speak for itself.

The 1950s and 1960s: 1957 On

The late 1950s and the first years of the 1960s were characterized by a series of electoral shocks to the political system, which contributed to maintaining the momentum of social policy change.

The first was the defeat, in 1957, of the federal Liberal government – after some 20 years in power. The new Conservative prime minister, John G. Diefenbaker, acted quickly to end the stalemate that had developed in the implementation of the long-promised health insurance plan. It isn't that former governments had done nothing: they had introduced, some nine years before, a National Health Grants Program, whose purpose was to gear up the capacity of the health industry to handle health insurance. More, the St. Laurent government had actually legislated a plan for federal contributions to hospital insurance in 1957. But the legislation required a consensus on the part of the provinces before it became operative: six provinces, representing a majority of the population of Canada, would have to signal their intention of starting hospital insurance plans before federal sharing of hospital insurance costs would begin. It was a question of the spending power again. Saskatchewan was ready; British Columbia was ready; Ontario was on the verge of announcing its readiness; but the required consensus had not yet been achieved.

It took a new prime minister to bring the matter to a head. Mr. Diefenbaker acted within months of his election to have Parliament remove the consensus requirement – a requirement that, by the way, was something new in shared-cost programs. The rest of the provinces quickly fell into line, and hospital insurance became a reality across Canada.

That left the question of medical care insurance: when would, or indeed should, it be introduced? Prime Minister Diefenbaker's response to the question was to appoint a Royal Commission on Health Services (1961) to propose the measures it believed would best ensure adequate health care for all Canadians. The Commission reported in 1964. Saskatchewan's response, characteristically, was more direct: it announced, in 1959, and then introduced, in 1962, a complete medicare plan. The Saskatchewan plan was to serve as a major impetus for national medicare, all the more so by reason of the attention focused on it by the strike of the doctors against medicare.

Meanwhile, the changes in government in Ottawa were acting in another, indirect way to quicken the pace of social security change. The Liberal Party, now under the leadership of Lester B. Pearson, began to develop new policy directions, as part of its renewal process. These emerged in an election platform in 1962. Two of them are particularly pertinent to our story. The first was the Liberal party's undertaking to fulfil the health insurance promise of 1945 by introducing national medicare. The second was the proposal for a contributory Canada Pension Plan, to provide a wider range of public pensions at age 65.

At roughly the same time – in 1960 – the second major electoral change took place. The Duplessis regime, in power continuously in

Quebec for 15 years, was ousted by Jean Lesage's Liberals – the Jean Lesage of OAS fame. Under his leadership, Quebec's Quiet Revolution – which was also to affect the whole of Canada – began to take shape. Radical changes in nearly every field of public policy were embarked upon over the following decade, with social security and education leading the way.

The third major electoral change came in April 1963, when the Diefenbaker government was defeated by Pearson's Liberals. And as if the Liberal platform for social security changes were not promise enough, the new government failed to receive a majority in the House of Commons – which gave the New Democratic Party (the successor to the CCF) a very strong voice. A high priority was assured for an expansion of Canada's social security system.

When Prime Minister Pearson assumed office, he began, in "60 days of decision", as he put it, to launch a large number of the initiatives that had been outlined in the Liberal platform. Among them was the Canada Pension Plan. It became obvious before long, in particular to Mr. Pearson, that the government couldn't possibly meet this kind of deadline, particularly in starting the CPP. In fact, the launching of the Plan was to be a long and a tortuous affair.

What the government had in mind was a contributory public pension plan that would, after a phase-in period, provide public pensions equal to 30 per cent of the first 'band' of earnings ($4,000) of all wage earners. The contributory pension would be 'stacked' on top of the universal Old Age Security pension, which the Liberals had also promised to increase (by $10 a month). Finally, the CPP was to provide benefits for the surviving spouse, but not disability benefits.

Today it seems a modest proposal, but it gave rise to a storm of controversy. The increase in the OAS pension was too small, and it certainly should not be delayed until the CPP had been legislated (as had been proposed). The Canada Pension Plan benefit rates were too low; the self-employed should be covered just as much as wage earners; and the qualifying age for both the OAS and the CPP should be reduced from 70 years to 65, without actuarial reduction in the CPP pension (again, as had been proposed).

On the other side of the dispute, it was argued that the public pension plan should not be allowed to disrupt private pension plans or to threaten the flow of investment funds from them. Nor should the Canada Pension Plan depart from the 'work and save' philosophy – seen by so many to be the touchstone of social security in Canada.

The debate of these issues was joined both in Parliament and, outside, by the major interest groups – ranging from the insurance industry and the Chamber of Commerce, who didn't want a pension plan at all, to the Canadian Labour Congress and the emerging pensioners' organizations, who wanted a more generous one.

But the biggest debate of all was the federal-provincial one – notably the federal debate with Quebec. The Canada Pension Plan, it must be said, was not the only issue at stake in 1963 and 1964: the provinces were demanding that the federal government reduce its income taxes to make room for higher provincial tax rates; they were questioning the appropriateness of the federal government's part in certain national programs (notably the Municipal Loan Fund and the proposed Canada Student Loan Plan); and Quebec was insisting, beyond all of this, that it must have the right to opt out of all federal-provincial shared programs, but still receive, unconditionally, full federal compensation (in lieu of the national shared-cost contributions).

The discussion of these issues – at three successive federal-provincial conferences between July 1963 and March 1964 – was difficult and strained. It culminated, in fact, in a confrontation between the Government of Quebec and the Government of Canada, at the 1964 conference, that was so tense as to give rise to headlines of "A Crisis of Confederation".

All the issues were ultimately resolved, as we now know, through a combination of Prime Minister Pearson's diplomacy and his acceptance of certain de facto limitations on the powers of the federal government over social policy and fiscal matters. But no such resolution had been achieved while the Canada Pension Plan was being negotiated: it was a part of the general upheaval of 1963-1964.

From the very beginning of the CPP discussions, it seemed that Ottawa's plans for a single national pension scheme were to be checkmated by Quebec – with the invisible hand at the board being the Constitutional Amendment of 1951, which gave the provinces paramountcy of legislative powers in the pension field. (Some would say there was another invisible hand: the presence among Premier Lesage's key advisers of two officials who, in 1976, were to become ministers in the *indépendentiste* Parti Québécois government. Whatever the case, it remains that it was Premier Lesage who took the final decisions.) Quebec's first move came, or became evident, at the very time the Government of Canada was announcing its plans for the CPP in the Throne Speech of May 1963: a committee of officials was already at work in Quebec studying the feasibility of a Quebec pension plan. Then, when the minister of national health and welfare, Judy LaMarsh, introduced her resolution on the Canada Pension Plan in the House of Commons on June 19, 1963, Premier Lesage answered with his own resolution on a Quebec Pension Plan, tabled in the National Assembly on August 21, 1963. Next, when the federal and provincial ministers of welfare met in September to discuss the Canada Pension Plan, Quebec's representatives attended only as observers. Then, when the prime minister and the premiers met in

October to discuss CPP (among other things), Premier Lesage tabled his proposals for opting out of all federal-provincial programs, and affirmed, in respect of contributory pensions, that Quebec would be bound by its August 21 resolution.

The *coup de grâce* was delivered at the Federal-Provincial Conference of March 31 to April 1, 1964, when Premier Lesage tabled a fully developed Quebec Pension Plan – a plan whose design was greeted with admiration by the whole conference. It was the plan, in fact, that was to serve, alongside the Canada Pension Plan, as the basis for the compromise that led to the harmonized Canada and Quebec Pension Plans of 1966.

It was clear, in short, that the differences that divided the Government of Quebec from the Government of Canada had to do, first and foremost, with the place of Quebec in the Canadian federation. But major policy differences divided them, too. In particular, Quebec wanted a fully-funded pension plan, as a means of providing some of the capital required to finance Quebec's Quiet Revolution. Ottawa, for its part, had started out by proposing an unfunded plan. A compromise was finally reached on this, as on many other policy differences – thanks to the quite remarkable efforts of the federal and Quebec officials involved. The story of the CPP/QPP negotiations, indeed, is a saga in itself, from the early meetings of August 1963, when the prime minister's principal secretary and his secretary to the cabinet met with Premier Lesage and his key officials to seek some potential reconciliation, through the negotiations with Ontario, which at one point threatened to establish its own plan, and finally to the meetings of the parliamentary committee on the CPP bill. But, sadly, there isn't time for it here.

So it came to be that two harmonized pension plans were enacted: the Canada Pension Plan for the whole country minus Quebec, and the Quebec Pension Plan for that province. So it came to be, too, that the plans that finally emerged represented a considerable improvement over the original CPP, at least in the eyes of the advocates of social policy and – it must be said – in the eyes of the provincial governments, who now would have exclusive access to the funds of capital provided by the revised Canada and Quebec Pension Plans.

As a matter of interest and record, the two plans provided for pensions equal to 25 per cent of incomes between $600 and $5,000 per year; the pensions became payable at age 70 or, with a retirement test, between 65 and 70; the contribution rates were higher (1.8 per cent instead of 1 per cent); the self-employed were now fully covered; and both the pensions and the earnings base were partially indexed (as originally planned). In addition, the CPP/QPP now provided a wide range of survivor, death and disability benefits (the disability benefits being just over 75 per cent of the retirement pensions). These were the plans that were legislated in 1965 – accompanied by a constitutional amendment to enable the Parliament of Canada to legislate survivor and disability benefits. There have, of course, been many amendments and improvements in the plans since then, most notably the full indexation of the benefits to the consumer price index in 1973. But the place of CPP/QPP in future social security measures was settled by 1965.

The Old Age Security plan was changed very materially, too, during this period. Originally the intention had been to increase the OAS by $10 a month, at the time the CPP was legislated, and then to look upon the OAS as the first tier in old age pensions. But the clamour for a more generous OAS was too intense to simply leave it at that. It was a clamour that extended beyond the NDP – it was joined by Opposition Leader John Diefenbaker in Parliament and by interest groups outside. Increase the OAS to $100, it was argued, and reduce the qualifying age from 70 to 65 years of age.

Three successive efforts were made by the Government to quell the criticism – in 1963, 1964 and finally 1966 – in one of the great sagas of parliamentary, political, and interest group pressures in Canada. But out of it came the system we know today. Old Age Security would be the first tier; the Canadian Pension Plan would be the second; and a new guaranteed annual income – a transitional measure only, as it was introduced – would be the third. By 1970, all were to become payable at age 65.

The guaranteed annual income – the Guaranteed Income Supplement it was called – was for many the most interesting part of this settlement. The notion of a guaranteed annual income was by now, of course, familiar to people in the social security field. And officials in the Department of National Welfare led in designing the new GIS. But it took the Croll Committee of the Senate (David Croll, once again) to propose it as an *alternative* to another increase in the universal OAS pension. Prime Minister Pearson quickly embraced the recommendation, and the Guaranteed Income Supplement was legislated. Ironically, the GIS was looked upon at the time as a transitional measure, pending the maturation of the Canada/Quebec Pension Plans. But this, in the long run, was never to be: the GIS became an integral part of the old age security system.

This history of CPP/QPP and OAS/GIS, as I recount it, sounds rather more like a retreat into social security reform than a planned decision to improve the lot of the retired in Canada – at least when one simply chronicles the events. But to leave it at that would be to distort the intentions and purposes of the policy makers and influencers of those days. Clearly Prime Minister Pearson and his colleagues had set their minds on a substantial reform of Canada's social security system: it was the nature of their measures, and their perceived insufficiency, that evoked the political and constitutional controversies of those times. Clearly, too, the NDP and its leader, now T.C. Douglas of Saskatchewan, brought to bear on the events a clear conviction that social security policies must be made comprehensive – and they, after all, held a strong, if not commanding, position in Parliament. Finally, the Government of Quebec had also committed itself to fundamental social policy reforms. And while that government was set on introducing them in Quebec, independent of the federal programs, it remains that, in the federal-provincial reconciliations that were effected, the influence of Quebec was, like that of the NDP, in the direction of comprehensive reform.

The Story and the Legacy of Opting Out

As a backdrop to these changes in social policy, there lay the troubling, and troubled, question of Quebec's position in the federation. Quebec had demanded, in 1963 and again in 1964, that arrangements be made for it to opt out of most of the federal-provincial shared-cost programs. In the context of the controversy surrounding the CPP/QPP issue, and in particular after the federal-provincial conference in Quebec in 1964, it seemed to Prime Minister Pearson, as indeed it had before his election, that this was the only course he could pursue. English-speaking Canadians in general not only accepted but supported the proposition that Ottawa had a role to play in the development of national dimensions to certain of the major provincial programs, health insurance and income security being the outstanding examples. But the Government of Quebec did not – on the grounds of cultural differences between that province and the rest of the country. That, reasoned Mr. Pearson, was a reality the country probably had to live with.

So in the fall of 1964 he put on the table a proposal that would at least lead in the direction of special status for Quebec – though obviously, given the nature of the federation, expressed in terms that could apply to any province. Specifically, the prime minister offered, to any province that chose, a permanent transfer of revenue sources with which it could finance the federal share of major well established, shared-cost programs. This tax transfer, along with balancing cash payments, would equal the federal share of the costs of these programs. The fiscal transfer would be followed later by a decision as to what would happen to the national conditions that continued to apply to the programs involved.

Only Quebec accepted the offer. Predictably, the Government of Canada was faced with two options for the future: to confirm special status for Quebec by abandoning its federal-provincial programs in that province, or to take action itself to step out of the programs at issue in *all* the provinces.

There seemed, at the time, to be only one choice open: to accept special status for Quebec. But by early 1966, at the very time the Department of Finance was shaping a new approach to fiscal federalism and to federal-provincial relations more generally, a new and influential star had emerged on Ottawa's stage. It was Pierre Trudeau, elected to Parliament in November 1965 and almost immediately named Parliamentary Secretary to Prime Minister Pearson (January 1966). He brought to Ottawa the same argument he had been making in Quebec: that special status for Quebec would seriously weaken the nation. It was the very argument the Finance department had been making for months and one that was reflected in the new fiscal arrangements they were developing.

The weakening of Canada by the entrenchment of special status would occur in one of two ways, went the argument. The most obvious would be for the other nine provinces to demand, sooner or later, that they too be relieved of any conditions in respect of federal-provincial programs. If this were to be accepted, there would be no role for the federal government in health insurance, in income security, or in post-secondary education (where its financing and priority-setting role was to become very important). Nor would there be much hope for a role for Parliament in respect of future national, but provincially-administered programs.

The other way the nation could be weakened through special status would be if Quebec were to remain the only province to choose that route. The essence of such a situation, argued Pierre Trudeau in particular, would be an increase in the powers of the Government of Quebec and a decrease in the power of Parliament in respect of the province of Quebec. This would inevitably mean an erosion of the position and status of Members of Parliament, and of federal ministers from Quebec, in the governing of Canada. Moreover, the Government of Quebec could be expected to continue the demands for still wider transfers of power from the federal government to itself, until finally the role of the federal government in Quebec would be reduced to that of contributing equalization payments to the province, and of providing a Canadian umbrella for a more or less "separate" Quebec – the umbrella being a common currency, a common monetary policy, a common market, and a common defence system. It was a recipe for "separatism by stages", as special status later came to be called in Ottawa; and a model for "sovereignty-association", as it came later to be recast in Quebec.

A way out had to be found. And it was, in September, 1966. The Government of Canada announced its intention of stepping out of the established shared-cost programs, believing, it said, that these programs were by now so much a part of the fabric of Canadian life that no province would abandon them. For greater certainty, however, a federal-provincial agreement would be entered into, under which the portability of hospitalization and provincial income security benefits would be assured (the existing shared-cost programs) and regular federal-provincial reviews of program standards would be entrenched. As for *new* shared-cost programs, the Government affirmed its belief that Canadians would expect their national government to have some vehicle by which to initiate new federal-provincial programs in the nation's interest.

This announcement was made on the Government's behalf by the minister of finance, Mitchell Sharp, at a meeting of ministers of finance in 1966. It was accompanied by a proposal for new fiscal transfers to the provinces, in lieu of the existing shared-cost payments. Astonishingly, at least as seen through today's eyes, the provinces rejected the Government's proposals. They seemingly agreed with the principles of the proposal but argued that the amount of compensation being offered (in respect of the program costs then being borne by the federal government) was not enough. Over time it was to become evident that the transfers proposed had been excessively generous.

Now there is a reason for recounting this long and complicated story. The frame of mind of governments that it reflects, in respect of nation-wide federal-provincial programs, was to cast a long shadow into the future. It reached the point, indeed, where the provinces as a collectivity – and they came more or less to act as such in these matters – firmly set their faces against any initiative on the part of the federal government that would involve national federal-provincial shared-cost programs. And it reached the point, on the part of the federal government, that it finally legislated an end to any federal tilting of provincial priorities through the major shared-cost programs – hospital care, medical care, and federal contributions to the provinces for post-secondary education. This was what was enacted in the controversial *Established Programs Financing Act* (1977) – the culmination of a history that had seen an end to Government of Canada initiatives by way of shared-cost programs.

Finishing the Story of the 1960s

Once again, however, I am getting ahead of myself. For there are two more elements to the tale of the late 1960s – both of them striking exceptions to the events I have just been describing.

The first was Medicare. The tensions of 1964 – including those over the Canada/Quebec Pension Plans – had scarcely subsided, when Prime Minister Pearson decided he wanted to introduce medicare.

The suggestion was not completely unheralded: the Hall Commission, which had reported in 1964, unequivocally recommended it; the NDP, who held a strong position in the new minority Parliament, clearly supported it; and, most important of all, the Saskatchewan plan had been operating successfully for three years.

But medicare obviously would have to be a federal-provincial measure because, like hospitalization, it fell within provincial jurisdiction. This meant that any federal plans would somehow have to engage Quebec's support, since leaving any room to opt out of medicare would bring the whole initiative down.

It seemed an impossible proposition. How could the prime minister initiate a federal-provincial program – particularly of this magnitude – when the premier of Quebec had firmly stated that the province would never again sign a shared-cost agreement?

It was up to federal officials to find a solution, and they did – a remarkably simple one. The Government of Canada would introduce a plan that did not call for an agreement. It simply would call for a statute of Parliament under which the Government of Canada would be empowered to support any provincial medical care plan that conformed with four principles: universality (of benefits); comprehensiveness (of services covered); portability (of benefits across Canada); and public administration (administration of the medical insurance plan by a public agency). These 4 principles were borrowed, in a nice twist of fate, from the 11 principles Premier Douglas of Saskatchewan had enunciated when he announced his intention to start a provincial medicare plan in 1959.

The question, of course, was whether the Government of Quebec would accept such a plan. The answer was found, through private discussions between two officials, even before the idea had been put to the prime minister. Quebec would acquiesce if such an approach were proposed. After all, Premier Lesage himself favoured medicare, and more important, under the suggested approach, Quebec would not have to sign a conditional grant agreement to become entitled to federal contributions.

This was the *déblocage* that led to the prime minister's medicare proposals, made to the provinces at the Federal-Provincial Conference of July 1965 and subsequently promised in the November election (called by Mr. Pearson in a vain effort to gain a clear majority). The issue now was clear and uncluttered: what priority did the provincial governments attach to medicare?

The answer was clear – and negative. The Government of Ontario launched a campaign against medicare, joined by a good many of the provinces – including Quebec after June 1966, when Premier Lesage was defeated and Daniel Johnson of the Union Nationale succeeded him. More than that, the Government of Canada itself, or at least many of its ministers, began having second thoughts—at least about the timing of medicare's introduction. The economic circumstances were not auspicious in 1966— inflation was threatening—and more than that, the Government was busy digesting the spate of fiscal measures that had been introduced between 1963 and 1965. So the new minister of finance, Mitchell Sharp, announced a one-year deferral of medicare in his mini-budget of September 8, 1966.

It was to be July 1, 1968 before Medicare was enacted—still in the teeth of opposition from many of the provinces. Indeed, the opposition was so bitter that Prime Minister Pierre Trudeau was to declare at a future constitutional conference, "There will be no more 'medicares'." But eventually Medicare became a reality: the promises of the 1945 blueprint were finally realized.

The other major development during the 1960s was a reform, by the Government of Canada, in the kind and the range of provincial social assistance measures it would support. Unlike the other social security measures of the 1960s, the Canada Assistance Plan, as the new program was called, was relatively unheralded. Enacted in 1966, it was a testimony to what was possible when federal and provincial program ministers and their senior officials sat down privately to work out the reforms they believed their respective governments might support.

The essence of the new plan—CAP as it came to be called—was the provision by the federal government of 50 per cent of the costs of provincial income support plans for the needy, whatever the origins or causes of the need, plus the sharing of a wide range of associated welfare services. Gone was the means test of earlier days: a needs test was substituted. Gone, so far as the federal government was concerned, were the categories of the past: the disabled, the blind, the needy mothers, the employable unemployed. Gone were the traditional exclusions from federal sharing of the costs of welfare services, such as child welfare, home care, and institutional and rehabilitation services.

In the place of the earlier categorical measures, it was planned, would be a comprehensive social assistance plan in each of the provinces, embracing both income support and social services to the needy. Significantly, however, the design of the income support plans was to be left almost entirely to the provinces. The same was true with respect to the range and quality of the welfare services to be provided. Even more surprising, given the fact that a guaranteed annual income was in the course of being developed for the elderly, was the failure on the part of the national government to require some version of a GAI for these other categories of needy people. The means test, it is true, was replaced by a needs test, but that was a far cry from the stigma-free income test promised by a guaranteed income plan.

The Canada Assistance Plan, in short, was to be essentially a social assistance plan, without any financial incentive for the recipients to move from welfare to low-paid, temporary, or part-time employment. Nor was there to be any requirement that social assistance plans be integrated with the National Employment Service, to the same end.

The Canada Assistance Plan symbolized, in a certain sense, an end to the major reforms of the 1950s and 1960s. The grand design of 1945 has been put in place – not always tidily, not always peacefully, but it was there. There had been some embellishments; there had been some shifts in the balance between elements of the system; there had even been some harbingers of new directions for the future (notably the Guaranteed Income Supplement). But the system as a whole contained few major departures from the social security policies that had been envisaged some 15 years before.

The 1970s and 1980s – Troubled Times

So Canada entered what turned out to be the troubled 1970s and 1980s. They were decades that, like the 1930s and 1940s, saw the emergence of new forces and new confluences of forces that were to materially affect society's views concerning social policy. But the forces of the 1970s and 1980s, not surprisingly, were different from those of earlier years, and so were the perspectives that emerged about public policy.

It was during these decades that there developed an increasing redistribution of production and income from the traditionally industrialized West to the rest of the world. It was epitomized by the oil shocks of 1973 and 1979, when most of the oil exporting countries of the world formed a cartel for the purpose of extracting a higher price from the petroleum consuming countries. The resulting redistribution of purchasing power was enough in itself to slow the growth rate of the industrialized world. But the global redistribution had, in fact, begun before that. The newly industrialized countries of the world – one thinks of South-East Asia – now were competing with the industrialized West for world markets, including those of the West itself. Moreover, many Third World countries were discovering that they too had rich natural resources and that, with their low labour-cost economies, they could compete with resource producing countries like Canada. It now was no longer simply a matter of foreign aid to the developing countries of the world; it would increasingly become a matter of foreign trade with them. But that would mean declines in the rates of growth of production and income in the West, in favour of increasing rates of growth and income elsewhere – unless, of course the industrialized West could find new technologies and products to make up for the production that had shifted to other countries.

Canada, with the rest of the West, was to learn what it felt like to live with lower rates of growth and with higher levels of unemployment. It was to learn, too, the effect upon policy making of an economy that produced smaller dollops of fiscal dividends to governments, with which to cope with unemployment and other public policy issues.

To complicate matters here at home, the labour force in Canada was to grow very rapidly as well – even more so than in the rest of the West. The baby boom of the post-war years was entering the labour force; women were increasingly entering the labour force; and high levels of immigration were contributing to the growing labour force as well. All this could lead to only one result: more people competing for a declining number of new jobs. So unemployment grew even more.

To bedevil governments still further, the magic of Keynesianism as a solution to declines in production and employment was becoming somewhat tarnished. By now it was evident that the fiscal stimulus governments might provide to increase investment and employment, could be diverted into higher prices and wages through the action of corporations and unions. Certainly, governments could increase demand, whether by more spending or by lower taxation; but the higher demand could lead to rising prices for the same quantity of goods, rather than to an increase in the production of goods to meet the rising demand. If that happened, higher prices, rather than increases in employment, would be the result.

More than that, there was the perplexing question of what to do about longer-term trends in foreign demand. Keynesian economics had never laid any claim to providing a solution to the problem of declines in demand occasioned by shifts in the patterns of world trade. But this is what governments now had to contend with. The Government of Canada had, therefore, to turn its mind to finding the means by which to increase the competitiveness of Canadian industries in world markets. It had, too, to consider how to avoid becoming the victim of any looming protectionist tendencies on the part of its trading partners, in response to growing import and export competition from the new foreign competitors. The world looked different, in short, when viewed through the lenses of the 1970s and 1980s.

So, too, was the social security world in Canada beginning to look different – as a consequence of both the unemployment induced by the slower economic growth, and the attendant shortcomings in the social security system itself. The system was more or less complete for people over 65 – the levels of income support may be contested, but the system was there. For people of labour force age, however, who expected and were expected to earn their basic income from employment, the heart of the grand design of 1945 was coming apart. The employment and income were not always there. True, there was a contributory unemployment insurance plan for people who became temporarily unemployed. But it was not designed for extended unemployment or for intermittent or part-time unemployment. Social assistance, designed in its origins and its intentions to pick up where unemployment insurance left off, did not fill the bill. It not only retained the old welfare stigma – and the provinces did little to diminish the stigma, particularly when it came to the able-bodied unemployed – but it was not even designed to assist people who *were* working, but at insufficient income levels (the 'working poor').

These shortcomings in the social security system might not have achieved the prominence they did had it not been for a new-found consciousness of poverty in North America. This awareness was partly the product of newly developed methods for measuring poverty – Statistics Canada was at the forefront, beginning as early as 1959 – but, even more, it was the consequence of the developing willingness of governments to take on the issue of poverty. President Johnson of the United States declared his war on poverty in 1964, and the following year Prime Minister Pearson, in a more measured (and Canadian?) way, declared his – announcing his intention of bringing about "the full utilization of human resources and the elimination of poverty".

This concern about poverty was reinforced by a number of reports on the issue at the turn of the 1960s. There was the 1968 Report of the Economic Council of Canada; the report of the Canadian Welfare Council in 1969; the 1971 Report of the Special Committee of the Senate; and, in Quebec, the Castonguay-Nepveu Commission (1971), which proposed a detailed three-tier plan designed to cope with the problem of poverty and the working poor.

The near-uniform prescription for resolving the problems of Canada's social security system was a guaranteed annual income (GAI). The idea of a guaranteed annual income was not new, of course: it had been developed by economist Milton Friedman some years before. But the recognition that it could be used to resolve at least some of the new-found deficiencies in Canada's social security system was new.

The essence of the reasoning was this – as it might be put today. The nexus between employment and assured family incomes, as contemplated in earlier years, had been broken – or at least seriously damaged. It followed logically that if – or to the extent that – employment could not be created, then the income it would have generated, or at least some of it, should be provided in its place – in short, guarantee the income to the extent you can't guarantee the employment.

This perception – not perhaps stated this way, and certainly far from being universally shared – was what animated most of the efforts of the 1970s to reform Canada's social security system.

The Policy Initiatives of the Early 1970s

There were two major policy initiatives in the 1970s designed to achieve a guaranteed income as a complementary, or perhaps one should say compensatory, instrument to employment creation: the Family Income Security Plan of 1972 and the Social Security Review of 1973 to 1976. Neither was to come to a happy conclusion – in the eyes of their proponents, at least – but this is to get ahead of myself.

In fact, it was a reform of the Unemployment Insurance Plan that came first in the 1970s (1970-1971) – essentially an effort to reshape an existing policy instrument to meet the new policy needs. The objective of the reform was worthy enough: it consisted essentially of an attempt to enrich and to broaden the UI plan and, at the same time, to introduce into unemployment insurance some of the welfare objectives generally associated with a guaranteed annual income. But the reform served to demonstrate not that a GAI could be achieved through existing policy instruments but rather that the opposite was the case. The one was to distort the other.

The process of the reform began with the publication of a White Paper in June 1970, entitled "Unemployment Insurance in the 1970s". It set the tone and the policies that were to find their way into legislation one year later – one year and dozens of meetings of the House of Commons Committee on Labour, Manpower, and Immigration.

Their essence, as proposed by Minister of Manpower and Immigration, Bryce Mackasey, can be stated in a few sentences. Unemployment insurance would become universal: its coverage would be extended from 80 to 95 per cent of the population. The UI benefit would be increased, from some 40 per cent of previous earnings levels, to 66 per cent. The benefits would also be widened: they would cover interruptions in employment because of childbirth and sickness; and they would provide a transitional benefit for people who turned 65 years of age. The benefits of UI would also, and most importantly, become more easily available: they would be earned by employees who had worked and contributed to UI for very short periods – notably the young and the non-continuously employed. The benefits would also become more easily available to 'regular' intermittent workers:

they could even, as it turned out, be used as a bridge between regular (and even arranged) periods of short-term employment.

This easier availability of benefits was accomplished by three changes. First, the qualifying periods were shortened – to as little as 8 weeks in the previous 52 (compared with the requirement in the earlier Act of 30 weeks out of the previous two years). Second, the benefit period was lengthened, to a maximum of 51 weeks (compared with the earlier 36). Third, the minimum and maximum periods (of contributions and benefits) were made more generous to workers in areas of high unemployment (the measure of generosity being reflected in the numbers above) than they would be in areas of lower unemployment. This was the now familiar 'extended benefits' element of the plan.

UI would, in short, not only be more generous but would lend itself, for certain categories of workers, to becoming a kind of short-term guaranteed income – notably, for intermittent and short-term workers.

These were sweeping changes. True, earlier reforms, notably one in 1955, had made unemployment insurance more liberal, with the introduction of seasonal benefits and the reduction of the periods of employment required to qualify for UI. But even these had given rise to serious concerns about the viability of reducing the work-and-save side of a social insurance plan (the qualifying work periods) without looking at the benefits side too. This concern had been borne out during the 1957-1962 recession, when the UI fund was seriously depleted. It had also been reflected in the many studies that were made of UI during the 1960s, including, in particular, the Gill Report.

Mr. Mackasey's reforms, however, went much further than these earlier ones. They unashamedly compromised the social insurance character of UI. The puzzling question is how Mr. Mackasey managed to persuade his colleagues to accept his reforms – and in particular how he convinced them that his estimate of the costs of the change was sound.

The answer lies, probably, in the political and economic perspectives of the early 1970s. On the political side, there had been a change of prime ministers. When Mr. Pearson retired in 1968, Pierre Trudeau had replaced him, and in the ensuing election he won a sweeping majority. One of the major planks in his electoral program was social justice; it seemed clear to his colleagues that some measure or measures were required early in his term as a tangible response to that goal. Mr. Mackasey, while not the minister of national health and welfare and, indeed, sometimes impatient with that department for what he saw as its slow and deliberate attempts to bring reforms to Cabinet, was more than ready to act, himself, to reform the social security system.

That clearly was his goal – he made no secret of it. And the instrument available to him, given his portfolio, was unemployment insurance. So it was through UI that he acted.

As for the economic perspective, the economic and employment prospects facing Canada – as they were perceived by many in those years – came to Mr. Mackasey's aid. Sweeping technological changes were widely expected, and, it was said, these would cause high levels of transitional or, even worse, extended unemployment. Something had to be done to ensure that these expected technological displacements *were* largely transitional and that they were handled humanely. Existing social security measures seemed not to be up to the task.

Mr. Mackasey pressed this case, arguing of course that a reformed Unemployment Insurance Plan, coupled with extensive employment services, would do the job. Other ministers – and MPs – who had reservations about the reforms seemed not to have had available any alternative with which to counter the Mackasey plan. True, the Department of Health and Welfare was working on a guaranteed income for families, as a substitute for family allowances. But for some reason their plan seems not to have been regarded as an alternative to the welfare elements of the proposed UI reforms.

It was for a mix of these reasons – at least so it seems reasonable to speculate – that the ministers who had reservations about the Mackasey proposals, including the minister of finance and the president of the Treasury Board, were ultimately worn down by the pressures for change.

The new Unemployment Insurance Plan was in trouble from its very beginnings. Its costs vastly exceeded the estimates – indeed by 1975 they had reached $3.1 billion, compared with the original estimate of $1.1 billion; the potential for abuses or free-loading were soon more than evident; its unfairness to workers who had contributed to UI for years without making a claim was manifest; and the justice of giving preferred treatment to the unemployed in some areas, but not in others, came to be questioned.

The criticisms were so compelling that they led to a series of amendments to the Act, designed to tighten up the system – five amending Acts in just over 10 years, in fact. But the fundamental problem – the mixing of social insurance (based on the 'save for contingencies' principle) with income support measures (based on the principle of need or income deficiency) – was not solved. This is clear to this day, in the combination of qualifying periods, of 10 to 14 weeks, and benefit periods, of 25 to 30 weeks. This fundamental problem, and the resentment of abuses and perceived unfairness, was to lead to a major inquiry into unemployment insurance in 1985. But more of that later.

The Quest for a Guaranteed Income

To leave the story of unemployment insurance in the early 1970s and turn to the quest for a guaranteed annual income in those same years is almost to enter another world. For the quest for a guaranteed income, in the Department of National Health and Welfare, began at virtually the same time the Department of Manpower and Immigration was grafting onto unemployment insurance some of the elements of an income supplementation system. The White Paper on Unemployment Insurance was published on June 17, 1970, and the White Paper on Income Security was published on November 30, 1970. Which is a story in itself.

The essence of what National Health and Welfare proposed, in 1970 and 1971, was a guaranteed annual income for families with children, in place of the universal Family Allowance plan. What inspired the department, and Minister John Munro, was precisely the new concerns about social security that had arisen in the late 1960s: the higher levels of unemployment; the rediscovery of poverty; and the recognition of the working poor. But another motivation was to become central to the social security debate of the 1970s and 1980s: the growing recognition that universal family income supplementation was not a very good policy instrument for increasing the flow of support to the poor. Quite simply, it cost too much: you had to raise everyone's family allowance in order to raise the family allowances of the poor. The probability of this happening during periods of fiscal constraint was slim; indeed Family Allowances had been increased only once since 1945.

So Health and Welfare proposed in its White Paper that family allowances – larger family allowances – be paid on the basis of family income. The level of the allowances was ultimately set – after all the required inter-departmental consultations – at $15 and $20 per month (depending on the age of the child), up from $6 and $8. This level of allowances would be paid to families with incomes of less than $4,500 (some 20 per cent of all families) and would decline as family income rose, until they disappeared at an income of $10,000 (somewhat more for larger families).

The timing of the FISP measure was, seemingly, propitious. Prime Minister Trudeau had a majority government; he personally favoured the measure; federal-provincial tensions seemed to have abated, for a time at least; and the polls seemed to suggest that the public favoured the measure. The House of Commons, however, was ambivalent about it: there was strong opposition to the abandonment of universality, yet it was difficult to oppose the redistribution of income support in favour of the poor. There was, however, one fatal flaw in the plan that had nothing to do with income security, but that was to nag in the minds of the Members. Some 1,500,000 mothers, out of 3,500,000, would lose their Family Allowance cheques. This meant that virtually all 1.5 million women who did not work outside the home would lose the only cheque they received independently of their husbands (the participation of female spouses in the labour force still being relatively low at that time).

Despite this, and despite the end of universality, all-party agreement was reached to pass the bill before the House was prorogued in July 1972. However, the unanimous consent required to end debate on the measure was not granted – one single member dissented – and the bill died on the Order Paper.

This came as a relief, no doubt, to the women who had come to count on their Family Allowance cheques. But it undoubtedly came as a relief, too, to the Government of Quebec, though for quite different reasons. Quebec had not swerved from its view that only the government of that province could design a social security system to meet the particular needs of the people of Quebec. Moreover, the Government of Quebec had only recently received the report of its Commission of Inquiry on Health and Social Welfare – the Castonguay-Nepveu Report (1970) – which proposed a complete and integrated system of income support and supplementation (a guaranteed annual income, in short). That report put Quebec well in the vanguard of social security thinking, relative to both the other provinces and the Government of Canada. But the same report also put the province on edge about the social security plans being administered by the Government of Canada.

As a matter of fact, relations between John Munro, then minister of national health and welfare, and Claude Castonguay, then minister of social affairs in Quebec, were generally strained. The Government of Canada had acted more or less unilaterally in announcing, first, the Guaranteed Income Supplement, and now, the Family Income Security Plan. This tended to confirm Quebec's view that a Constitution that allowed both orders of government to act in the social security field would never make sense. To make matters worse, there existed a considerable gulf between the pragmatic approach of the largely anglophone ministry in Ottawa and the planning-based-on-principle approach of the ministry in Quebec. Quite aside from language differences, therefore, it had become extremely difficult for the two ministries to communicate. The obvious answer was the one Quebec had advocated for the past 10 years: exclusive jurisdiction for Quebec in the social security field.

This was the cast of mind that was brought to the 1971 Constitutional Conference in Victoria, where a formula for the patriation and amendment of the Constitution was to be discussed. And it was this cast of mind that persuaded Premier Robert Bourassa, now the first minister of Quebec, to reject the formula under discussion – to which he had agreed earlier – unless it was accompanied by the transfer to the provinces of exclusive jurisdiction over the field of social security. His proposal was, as everyone knows, turned down.

So ended another chapter in Canada's constitutional history and the second chapter in the history of guaranteed income in this country (the first being the GIS for people over 65 years of age).

The Social Security Review of 1973 to 1976

The next chapter in the story of the guaranteed income in Canada was to begin in 1973, when the Government of Canada launched a major federal-provincial review of Canada's social security system. It came about this way.

Prime Minister Trudeau, who had been elected with a large majority four years before, suffered a severe set-back in the general election of 1972. His Government was re-elected, but without a clear majority. The NDP, once again, held the balance of power. Mr. Trudeau now faced the question of what priorities he should pursue, and how he should go about governing the country, given his minority situation.

One of the major priorities he settled upon was a comprehensive review of Canada's social security system. What brought him to this decision, it seems reasonable to suppose, was the NDP's balance of power in Parliament. But it may also have been a return by Mr. Trudeau to one of his first interests (remember "The Just Society"), or it may have been a determination to settle the issue on which the patriation of the Constitution had foundered.

Whatever the case, the prime minister installed a new minister and deputy minister of National Health and Welfare and instructed them to launch a major review of Canada's social security system. No explicit limits were set on the approach they would take, but two or three parameters were evident. First, the review would have to be a federal-provincial one, however unchartered those waters might be. That was the only course the minister and his deputy believed to be appropriate. Second, the review would have to take as a given the presence in the social security system of universal income supplementation (OAS and Family Allowances). The existence of a minority government, together with the entrenchment of universality over time, made that clear. Third, it would not be possible to include in the review a re-examination of Unemployment Insurance. The new UI plan had only just been enacted, and it was still the subject of great controversy and change.

The plan of action that the new minister, Marc Lalonde, proposed to his colleagues was this. The Government of Canada would propose an agenda for the federal-provincial review by setting forth, in a working paper, the premises and principles by which it would be guided. The Government would also set out in the paper the strategies and general directions it would support during the Review, with the purpose of achieving a model social security system for Canada. The Working Paper would be published before the end of April 1973, and the provinces would then be invited to join the Government of Canada in a three-year review.

All of this came to pass – in three hectic months of effort and controversy among officials and ministers – and the Working Paper on Social Security in Canada (the Orange Paper) emerged on April 18, 1973.

The propositions the Government of Canada advanced in the Orange Paper were tantamount to a blueprint for the future. Five strategies were advanced: an *employment strategy*, whose goal would be "near-universal income from employment" – which meant jobs; a *social insurance strategy*, which would make contributory social insurance the first line of defence against the contingencies of life; an *income supplementation strategy*, through which income from employment or from social insurance would be supplemented to meet family needs – using a mix of universal and income-tested supplements; an *income support plan*, twinned with income supplementation, to meet the basic needs of people who could not work, could not find work, or could not be expected to work; and, finally, an *employment and social services strategy*, through which social services would be provided, with the object (along with the incentives built into the income supplementation plans) of contributing to the optimum personal function, and self-reliance, of the beneficiaries.

Implicit in these strategies were two simple propositions. The first was that a good and successful social security system depends upon good and successful economic policy – one that leads to the near-full employment of resources. The second was that a good and successful social security system turns upon an effective system of income support and supplementation – one that provides financial incentives for beneficiaries to return to work as soon as possible, and social services to make this an earlier reality for the beneficiaries.

Clearly it was expected that when Canada's ministers of welfare began meeting to review the social security system, they would concentrate upon the second of these two propositions, not on the first. And that is what happened.

The review was kicked off, so to speak, by a proposal by the Government of Canada that Family Allowances should play a much larger role in supplementing family incomes. Specifically, they would be virtually tripled, to an average of $20 per child; they would be indexed to the Consumer Price Index (as the OAS pensions had been a few months before); and they would be made taxable. In addition, provincial governments would be empowered to vary the amount paid for each child, depending upon the number of children in the family and/or the age of the child. The average in any province, however, could not exceed $20 per month.

The review began, in short, with a further affirmation of the place of universality in the social security system, but with a quite new approach to the harmonization of these federal measures with provincial income supplementation schemes. It now would be possible for a province to design its own income security system, and to vary the federal income supplements (Family Allowances) to fit their design. This flexibility would not apply, of course, to social insurance plans, since they were, by definition, geared to contributions and the individual's level of earnings. But it would mean the provinces could design their own income support and supplementation plans. Moreover, it would be (and was taken to be by Quebec in particular) a new and acceptable approach to federal-provincial relations in this field.

These were the purposes and premises of the Review. The question ministers and their officials were discussing, from here on, was how a guaranteed annual income plan could best be structured – stacked on top of the universal income supplements – so as to achieve three objectives: the meeting of family needs; the provision of incentives to recipients to return to the labour force; and the financing of such a plan.

Once this question was settled it would then be possible to discuss the 'hows' of implementation: the modes by which federal contributions might be made to qualifying provincial schemes or even, in the alternative, some direct federal role, such as a negative income tax.

Side-by-side with these discussions went two other studies. The first was the examination of social services and the part they could or should play in an integrated social security system. The second, under the auspices of the minister of manpower and immigration, was the consideration as to whether and how it might be possible to create a kind of community employment bridge in areas where the market economy was unable to provide the employment required.

The review was a large, ambitious, and challenging exercise, as the number of federal-provincial working groups and the vigour of their discussions attest. But this story has been told elsewhere.[*] The point to be made here, is that the central study – the design of an integrated income support/supplementation scheme – did, at a moment in time, come to fruition. A plan was proposed to ministers; it was approved by them, in principle, in conference; and the Government of Canada did offer to finance most of the incremental costs (the new costs over and above the costs of the existing social assistance plans). By this time, however, some provincial ministers, and in particular the ministers in Ontario, were becoming apprehensive about whether the federal contributions really would meet the additional costs and whether, one imagines, the proposed income support/supplementation plans would be supported by their ministers of finance and their premiers, in the ultimate decision.

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[*] See the author's article in *Canadian Public Policy* 1:4 (Autumn 1975).

Beyond the immediate questions of what individual governments might decide, there hovered the more general question of whether "the times" – of fragile economic growth and more straightened fiscal circumstances – were propitious for social security reform. This may or may not have been the right question in terms of policy logic, but as a matter of frame of mind, it was very much present.

Whatever the case, the review drew to an end in 1976 without the introduction of an income supplementation plan for the working poor (over and above Family Allowance) and without the replacement of existing social assistance plans with an income support plan along the lines of a guaranteed annual income.

Whether the Social Security Review did or did not contribute to a fundamentally reformed income security system is a matter of opinion. What can be said is that it at least set the stage for the future. It unquestionably contributed to the establishment of Saskatchewan's Family Income Plan (1974); to Manitoba's Child-related Income Support Program (1980); and, with Castonguay-Nepveu, to Quebec's Work Income Supplement Program (1979). And certainly it was the father of the Government of Canada's Child Tax Credit (1978). More, the Social Security Review contributed to the development, in provincial governments, of a capacity and a knowledge about guaranteed incomes and income supplementation that stood ready to be harnessed if and when events led the Government of Canada to take a new initiative. The importance of such a developed, state-of-the-art policy option was evident when the Macdonald Royal Commission (1985) reported and recommended a Universal Income Supplementation Plan, substantially along the lines of that developed by the Social Security Review.

But the defects or failings of the review were even more instructive than its scene-setting achievements. Two were particularly pertinent to future policy developments. First, it was unfortunate that, from the outset, the universal element of income supplementation – Family Allowances and Old Age Security – had to be treated as unchangeable. This meant that no changes in the mix of universal income supplementation and income-tested income supplementation were possible. This in turn meant that the cost of a universal income support/supplementation plan was bound to be high, and that incremental changes in the direction of income-tested income supplementation were virtually ruled out. There was not set in place, in other words, an overall approach that would lend itself to incremental changes in the future.

The second defect in the Social Security Review was the exclusion of Unemployment Insurance from its purview. In fact, what had been wrong with the *Unemployment Insurance Act* of 1970 was precisely that it was charged with some of the income support/supplementation tasks that are properly a part of a guaranteed annual income, but not properly a part of a contributory, wage-related social insurance plan. Put another way, the income support/supplementation plans developed by the Social Security Review should have been seen as the alternative to most of the so-called extended benefits that had been grafted onto UI, and so seen, could have made possible a fundamental change in the shape of the UI reform. As it was, the review's income support/supplementation plan was not introduced, and the Unemployment Insurance Plan continued on the course on which it had been set.

The Preoccupations of 1975 to 1985

This brings me to the last decade of the history of social security policy in Canada during the post-war years. Canada's preoccupations had been turning away from social security well before the Social Security Review was completed. A simple recounting of the events will recall why this was so, and will bring back to mind, too, some sense of the times during 1975 to 1985.

In 1976 the Parti Québécois was elected in Quebec, which transformed the possibility of Quebec seeking independence from Canada – in one way or another – from a bad dream into a reality. Prime Minister Trudeau and his lieutenants were to be preoccupied with, and then deeply engaged in this question until 1980, when the Quebec referendum on sovereignty-association was held and the proposition defeated.

Also, by 1976, the Government of Canada was deeply preoccupied with Canada's economic problems. It launched at that time a major effort to bring inflation under control through the introduction of price and wage controls. In 1978 the Government undertook another major initiative in this direction, when Prime Minister Trudeau announced major reductions in government expenditures – an initiative that was to be repeated more than once in the years ahead.

There was, on another front – but still having to do with the health of the economy – the necessity of responding to the shock to the world economy of the major increases in the price of petroleum. In Canada the response culminated in sweeping policy changes under the rubric of the National Energy Policy – a policy that later, when Prime Minister Mulroney was elected, was reversed.

On the federal-provincial relations front, the effort of the Government of Canada to cope with the regional consequences of the increases in oil prices, together with their consequences for the federal formula for equalizing provincial revenues – coupled, at the same time, with trying to limit the growth in federal fiscal transfers to the provinces for financing health and post-secondary education – led to a renewal of federal-provincial frictions. One of the major measures of the late 1970s, in fact – the *Established Programs Financing Act* of 1977 – was a response to these federal-provincial frictions. By this Act, the Government of Canada sought to rid itself of the problems of federal-provincial shared-cost programs. It said to the provinces: "Look, we'll leave to you the establishment of your own priorities. Decide what you will about your expenditures on health insurance and post-secondary education (the latter, by that time, were being supported by the federal government to the extent of over two-thirds of total provincial expenditures), and we will simply transfer to you, in block form, the amounts we would have been paying under the previous arrangements – with a limit on its escalation."

The EPF Act was, in a certain sense, a return to the mid-1960s, when the Government of Canada moved in the direction – but without actually going that far – of closing the door on the use of shared-cost programs as vehicles for developing, or at least of maintaining, Canada-wide programs with national standards. This time, however, the action was more dramatic and definitive – except, it has to be added, for one thing: the retention in the health insurance legislation of the famous "medicare principles" of universality, comprehensiveness, portability and public administration. In fact, it was the existence of these principles, or standards, that gave the Government of Canada the grounds for reacting, some years later (in 1983), to the growing practice in some of the provinces of permitting the extra-billing of patients by doctors for services covered under the medicare plans. Indeed, one province, Alberta, was threatening to impose user-fees. This seems to have been the straw that broke the back of federal passivity, and in April of 1984 legislation was passed to bring about a dollar-for-dollar reduction in federal payments to the provinces wherever patients were charged for medicare services outside, or above and beyond, the universal medicare plan.

But this initiative was the exception to the new federal quiescence, or abstinence, in respect of federal-provincial measures.

Meanwhile, there were still other fronts on which the attentions of federal politicians were deeply engaged between 1975 and 1985. There was a change of government in 1979-1980, albeit a brief one, from Trudeau to Clark and back to Trudeau again. But even more, after that shuffle, there was the all-consuming drama of the patriation and amendment of Canada's Constitution. It was as if political and policy action had been frozen in one frame on the political film. Now, the consequences of the amendments, and even of the events that led up to them, are far from having been played out, let alone determined. But for the purpose of this story of social security policy, the constitutional debate is the most dramatic illustration, after the Referendum, of the preoccupations of politicians, after 1975, with almost anything but major changes in social security policy.

A New Government: New Perspectives

It took the election of Prime Minister Mulroney's Government, after Prime Minister Trudeau's retirement in 1984, to bring social security policy back onto the public stage. But the perspectives and the purposes of his ministers, in doing so, were materially different from what had gone before.

Finance Minister Wilson, who spoke for the new government on these matters, raised essentially two questions. The first had to do with the new Government's priorities. The prime priority of the Government, he said, must be economic renewal, and one of the essential conditions of economic renewal was a reduction in the government's deficit – which meant cuts in government expenditures. To achieve them, the scale of social security expenditures would almost certainly have to be re-examined – they being such a substantial part of public expenditures.

The second question Mr. Wilson raised had to do with social policy as such – though obviously in the context of his questions concerning public expenditures. "We must," he said in his May 1985 budget, "adjust social programs so that the benefits are targeted to those most in need and funds are freed for other social priorities. Nowhere in this more important than with regard to child benefits." To give substance to the proposition he was advancing – or at least to give a sense of the direction in which he was going – Mr. Wilson announced three specific measures. First, he would partially de-index Old Age Security pensions by eliminating the indexation in respect of the first three percentage points rise in the Consumer Price Index. There was no indication as to where the savings from this measure would go. Second, Mr. Wilson announced a similar measure with respect to Family Allowances. He also announced a substantial increase in the child tax credit (to $524 per year); a reduction in the income level at which the child tax credit begins to phase out; and a planned reduction, beginning in 1987, in tax exemptions for families with dependent children.

The message was clear: reduce the universal income supplementation payments in favour of more selective ones (income-tested, one assumes). But no blueprint for the future was laid out. What did the Government intend in respect of income-tested income supplementation: a complete income supplementation plan, on the guaranteed annual income model, for families with children and for people over 65? Or would some part of the supplementation continue to be universal? Or what?

In the absence of a plan for the future, the message became simply one of cutting universality – for the old and for children. The gods of Canada's past had been challenged, and the grey power of Canada's present had been angered. The protests over the partial de-indexation of Old Age Security were so strong, indeed, that the Government quickly backed down. The proposed measure was withdrawn at the end of June 1985. The partial de-indexation of Family Allowances, however, was proceeded with: the protests were not as great, or as well-organized, as those in respect of the OAS; nor, of course, was the degree of dependency on Family Allowances as significant as it was in the case of OAS pensions.

But there was a message in this for the Government. A change from the known to the unknown is never easily accepted. But to challenge the most widely accepted element of the nation's income security system, without any indication as to what would be put in its place, is to take a step beyond political reality. Changes in the system might well be possible – difficult, but possible – but only if a complete income support/supplementation plan were developed, well explained, and skillfully managed.

The Mulroney Government did not make the same mistake when it decided to take on the issue of reforms to the Unemployment Insurance system. In this case the Government established a Commission of Inquiry (July 1985) and asked it to analyze the role and effectiveness of the UI program – as an instrument of both economic policy and social policy. Representatives of management and labour, as well as the public generally, were named to the Commission, and a former minister of social affairs for Quebec, Claude Forget, was appointed as chair.

Even under these auspices, however, it became evident once again, when the Commission reported in November 1986, how difficult it had become to reform Canada's social security system. The Commission – not including the labour representatives, who filed their own minority report before the Commission had even reported – presented a damning analysis of the Unemployment Insurance system, and sweeping recommendations for its change. But even before there had been time to read and digest the full report, the Canadian Labour Congress and the NDP had condemned it out of hand. So had most other politicians – some, it must be said, with greater reserve than others – who saw it as a political land-mine. As for the Government, it quickly distanced itself from the report for the same political reasons.

In fact, the report presented a veritable catalogue of weaknesses in the UI plan. The plan was unfair in its treatment of long-term workers relative to short-term workers, and in its differential treatment of workers in the same situation, but in different regions of Canada. It had the wrong incentives: there were "diminishing returns for working more than the minimum number of weeks needed to qualify for accepting temporary work while on claim." The UI system created "incentives for workers to take seasonal jobs in unstable industries, and to resist resettlement in areas offering better prospects; and incentives to employers to lay off workers at regular intervals." Unemployment Insurance was not an insurance program any more: regionally extended benefits were seen to be a system of income supplementation or redistribution, not social insurance. And on and on.

The recommendations of the Forget Commission were as sweeping as their criticisms of UI. In essence, they proposed not a change in the qualifying periods (required to "earn" UI) or in the benefit periods, but the tying of the benefits earned to income earned in the previous year – "the less worked, the less received", as the *Globe and Mail* reported. Where UI payments failed to meet income needs, an earnings supplementation plan would click in. The Chairman of the Commission was unequivocal about the need in Canada's social security system for an earnings supplementation program or programs (he saw them as provincial measures), but it was beyond his terms of reference to design and propose a specific plan.

Therein lay the problem with his report and, indeed, the problem of reforming Unemployment Insurance: how could you remove the earnings supplementation elements of UI until there existed a real, live earnings supplementation plan to take up the slack?

The stumbling block to the reform of Canada's social security system was, in short, revealed once again – the absence of a family income or earnings supplementation program based on income. Not a universal income supplementation plan; not an income support or social assistance plan designed for people with zero income; not a partial and contrived income supplementation plan hooked onto a social insurance plan; but a stand-alone plan for supplementing the incomes of the working poor.

Looking to the Future

It is on this uncertain – perhaps even pessimistic – note that 1986 ended. And it is on the same note that this history of the evolution of Canada's social security system must end – at least for the day.

It is a history with a great story-line, as I said at the beginning. It is a proud history, with proud accomplishments. But it is also a history that has bequeathed to Canadians some unresolved problems. As indeed all histories do.

The question, of course, is what the past tells us about the future – how we as Canadians can be instructed by our past as we search for the directions our social security system should take in the future.

The most revealing way to try to answer that question, perhaps – certainly the most engaging – is to ask a series of "what if" questions about the past. What if governments had taken a different course at the major turning points in the evolution of the nation's social security system? What difference might it (or they) have made in the system of today?

What if, in 1945, for example, there had existed a policy instrument by which the Green Book recommendation for a national unemployment assistance scheme, twinned with the Unemployment Insurance Plan, might have been realized? I have in mind, for example, some version of a guaranteed annual income plan administered through the *Income Tax Act*. And what if, given the existence of such a policy instrument, there had been a will on the part of the federal government to use it, and a willingness on the part of provincial governments to accept its use by the national government? What difference would this have made to the course of social policy history? In particular, what would have happened to universal income supplementation?

What if, in 1955, when the Government of Canada was initiating the federal sharing of provincial expenditures on unemployment assistance, it had made its support conditional upon the establishment by the provinces of full income support/supplementation plans (again, some version of a guaranteed annual income plan)? And what if the provinces had been prepared to accept this condition, and income support/supplementation plans had been established across Canada?

Or what if, in 1966, when the Canada Assistance Plan was being established, the Government of Canada had done the same thing – that is to say, had offered to share the costs of provincial social assistance plans only if they took the shape of a guaranteed income plan, along the lines of the Guaranteed Income Supplement which was being developed at almost the same time?

And what if, in 1973-1976, the Federal-Provincial Social Security Review had been successful in achieving the all-government support it needed to introduce a national, provincially-administered, guaranteed annual income?

How different would Canada's social security system look today had any of these what ifs become a reality?

In every one of these cases, it is evident, a guaranteed annual income plan would have come into existence in Canada, whether federally or provincially administered. As an integral part of that plan, there would have existed a system by which family income would have been supplemented automatically on the basis of income (i.e., on the basis of income deficiency in relation to some acceptable norm). It would then no longer have been necessary to use, or at least to increase, universal Family Allowances, as the sole means of supplementing the incomes of lower-than-middle-income families.

There are, in this conclusion, two implicit assumptions, of course: first, that the guaranteed annual income plan would be available to all Canadians (universal in that sense); and second, that the income test in the plan would be automatic enough to be free of the old means test stigma. Only under these circumstances could an income-tested supplementation plan be substituted for the present universal income supplementation plan (Family Allowances).

What becomes clear, when you think of Canada's social security system in this way, is that there has been nothing in the system between universality and welfare. Had there been an automatic and stigma-free supplementation of family income on the basis of income alongside universal Family Allowances, Canada's politicians would have had a choice as to which of the two to increase over time. Incremental change would have been possible, in short.

In fact—as any social security critic would observe—the possibility of incremental change did come into existence with the establishment of the Child Tax Credit in 1979. However, the fact that the Child Tax Credit is paid only annually, while Family Allowances are paid monthly, has not made a trade-off between Family Allowances and the Child Tax Credit realistic. Which speaks to the importance of the right policy instruments being put in place.

A guaranteed annual income, at any of these earlier points in Canadian history, would have made a second major difference in the development of social security, it seems to me. There would not have developed the same pressure, or inclination, to introduce into social insurance the adulterated and fragmentary income supplementation plans that were introduced. I refer, of course, to the inclusion of fishermen in UI in 1955, and the inclusion of other intermittent or part-time workers in 1971. All of these people would already have been receiving income supplements through the guaranteed annual income plan.

To draw a still longer bow, if one or more of these what ifs had become a reality, Canada's social security system might, perhaps, have looked something like this:

- for short-term unemployed
  - social insurance (UI)
- for longer-term unemployed, including single parents and disabled people
  - income support through a GAI
- for the working poor – part-time, temporary, seasonal and other intermittent employment
  - income supplementation through a GAI
- for the supplementation of family incomes, on the basis of family size
  - Family Allowances *plus* supplementation on the basis of income (e.g., Child Tax Credit)

All of these possibilities, it is evident, have to do with people of labour force age. What are the what ifs in respect of income security for the aged and the retired?

One might think of two, I suggest. What if, in 1951, a Canada Pension Plan (and possibly a Quebec twin) had come into existence instead of Old Age Security? This, after all, was the Government's preferred option. Would the OAS still have been introduced at some point or other? And, if so, what role would it have played relative to the CPP and QPP?

Or what if, in 1951, the guaranteed annual income had been invented and today's income-tested Guaranteed Income Supplement had been introduced, either instead of the universal OAS or alongside it? Or what if, in 1964-1965, when the Canada and Quebec Pension Plans were being worked out, a GIS had been introduced as the major income support measure (outside the CPP/QPP), rather than just as a transitional one? What role would the universal OAS come to have played then?

In all of these cases, or so it seems to me, the role of universal income support, for the aged and the retired, in relation to income-tested income support, would almost certainly have been smaller. (There are, once again, in this conclusion the same two important assumptions: that the income tests would have been stigma-free and that similar benefits would have been available across Canada. This was, of course, the case with the GIS of 1966.)

All these what ifs – whether they concern income security as it applied to people of working age or to people over it – demonstrate one thing. If you do not have a way of supporting and, in particular, supplementing family income up to a guaranteed annual level – with a stigma-free income test and with similar benefits being available to all Canadians – then there will be unrelenting pressure to use universal income supplementation instead. There will also be unrelenting pressure to bastardize social insurance plans to achieve the same ends.

If there is any one message that has emerged from Canada's past, it surely is this one. It is not that there aren't other messages: there are – in particular, the untold story of the economic and social costs of inadequate social services. But the message that emerges most clearly, at least so it seem to me, is the one concerning income support and supplementation. Ironically, too, it is the message that is most particularly pertinent to those who have opposed social security reform in the past, and in particular have opposed a national GAI. Could it be that they, even more than the social reformers, have contributed most to the perpetuation of universality and to the adulteration of unemployment insurance?

It is on this little note of irony that I bring this tale to a close and say, as was said in the title of this paper: this is the past of social security in Canada, as I see it, and how it may condition the future.

Social Policy in Canada: Past, Present and Future

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Introduction

In both Canada and the United Kingdom, the war of 1939-1945 bred a spirit of idealism together with the conviction that the effort and sacrifice demanded by the war would be rewarded by the post-war elimination of social problems. In Canada, particularly, the acute memories of the depression of the 1930s reinforced the determination of government to put in place a pattern of social programs to meet all the known needs in the health and welfare sectors. A.W. Johnson's paper clearly portrays this historical development during the 25 years until 1970, but it also reveals that economic problems and issues of federal/provincial jurisdiction would repeatedly impose difficulties along the way.

It is the purpose of this paper to expand upon some of the comments made during the Colloquium and, arising from the writer's direct participation in the process of social policy analysis and change in the 1970s, to discuss some of the most important difficulties that have confronted and will continue to confront that process.

These reflections represent an elaboration of comments made at the Canada/UK Colloquium on the paper by A.W. Johnson, "Social Policy in Canada: The Past as it Conditions the Present".

Federal/Provincial Issues

It has been argued that a federal system institutionalizes the conflicting ideals of unity and diversity. From the perspective of the federal bureaucracy, the advantages of a unitary state appear overwhelming, in that programs could be designed and implemented in what were perceived to be the best interests of the population at large, always having regard to the availability of funds. Furthermore, all members of the public would be treated equitably, regardless of where they resided, and the policies would reflect the 'national interest'.

Conversely, when social policy issues are looked at from provincial perspectives, it is inevitable that they are seen in often entirely different frames of reference and, in particular, with widely varying views of what constitutes high or low priorities in the context of political objectives.

J.R. Mallory has argued that "Provincial Governments were too prone to serve the immediate and the local interest at the expense of the long run and the national objective",[1] but this is too harsh a judgement of the federal system. On the contrary, provincial policy makers see themselves as responsible for identifying the particular interests and needs of their own communities, having regard to the special circumstances that prevail in their territories. Consequently, what might be seen as an urgent unmet social need in one province will, in another part of the country, constitute neither an objective nor a justification for the potential expenditure involved.

In respect to the question of jurisdiction there is ambivalence on both sides. From the federal perspective there is recognition of provincial responsibility for social policy under the *Constitution Act, 1982*, but for both political and other reasons, there is the desire to achieve effective national standards and to gain political credit from the electorate for the contributions made by the federal government. Conversely, to a varying degree among the provinces, there is considerable sensitivity about protecting provincial rights under the Constitution while at the same time, and particularly among the poorer provinces, there is acute awareness of the federal spending powers and the comparative wealth of the central government.

Provincial governments recognize the overall responsibility of the federal government for the management of the Canadian economy and, consequently, for one most important indicator of the health of that economy, namely unemployment. Furthermore, the central government has responsibility for the unemployment insurance program, including both its design and its administration.

An anomaly arises, however, when the benefits payable to the unemployed are exhausted under the limits imposed by the insurance system and beneficiaries are forced to turn to the provincially administered system of public or social assistance. Whereas the federal government is fully responsible for payments made under the guise of unemployment insurance, it provides only 50 per cent of the welfare payments covered by the Canada Assistance Plan. In the context of these cost-sharing arrangements, there are incentives for provinces to promote short-term employment programs for welfare recipients as a means of nudging them back into the unemployment insurance program.

It therefore follows that the 'failure' of the federal authority to manage the economy can create fiscal problems for the provinces in the delivery of the welfare program. It would not be surprising, then, if some provinces were sometimes tempted to think of forgoing the jurisdictional rights along with the cost of public assistance, or at least looking to the federal government to transfer the funds to the provinces to cover that proportion of welfare costs that was attributable to the long-term unemployed.

Reform in the Seventies

It became apparent as the 1960s ended that Canada had not yet achieved the brave new world, that poverty had not been eliminated, and that social security in particular required critical re-examination. It is interesting to note that the 1970s in the United States was also a decade of spectacular attempts to reform social security; these attempts, along with those of Canada, are described and compared with great skill by Christopher Leman in his 1980 book, *The Collapse of Welfare Reform: Political Institutions, Policy and the Poor, in Canada and the United States*.

A.W. Johnson's paper describes Canada's last attempt at comprehensive income security reform, the Federal/Provincial Social Security Review of 1973 to 1977. From the perspective of an observer/participant in the review, some factors merit additional consideration in the search for understanding of the reasons for the very limited achievements of the review:

1. The tendency of the federal government to make arbitrary decisions, and often for primarily political reasons. For example, at the outset of the review in the spring of 1973, the federal government, having regard to the electoral shocks of 1972, their minority situation in Parliament, and the upcoming election (which occurred in 1974) *tripled* Family Allowance payments. There was virtually no consultation with the provinces on this matter, and many of the provinces were convinced that far more useful programs could have been undertaken with the considerable funds committed to the dramatic increase in

universal family allowances. Similarly, some four years later, the central government enacted the Child Tax Credit, again without consultation and, as discussed later in this paper, with resultant problems of take-up and delivery of the benefits.

2. The recurring arguments as to federal/provincial jurisdiction reached a new peak during the review, with particularly powerful thrusts by the province of Quebec, itself in the midst of one of its periodic explosions of nationalism. It might reasonably be contended that an income support program for the working poor, one important objective of the review, could have been achieved if the jurisdictional conflict had been less strident and there had been greater efforts on both sides to reach a compromise solution.

3. A third and possibly the decisive reason for the failure to achieve the objectives of the four-year review was the significant downturn in the health of the Canadian economy, to be marked as the 1980s began with a new recession/depression. This enabled the forces of restraint in the financial wings of government to defeat the big spenders and, indeed, as the years passed, to enforce cutbacks and modification of programs in the social policy sector at both the federal and the provincial level.

Universality vs. Selectivity and Related Issues

In the years following the collapse of the Social Security Review, restraint stifled attempts at reform. As a further consequence of economic hardships, Canada has witnessed recurring debates about the universality of programs as opposed to selectivity or the targeting of services to the most needy. In this connection, John F. Graham has made the following pertinent observation:

> The welfare state in Canada has been predicated on a general condition of full employment; otherwise the budgetary consequences become unmanageable. Paradoxically and painfully, it will be necessary to restrain spending on social programs in order to save them. Such programs need to be modified to ensure that they protect those who need protection, while reducing payments to those who do not.[2]

Clearly, this particular debate will be hard fought because of the strong views on both sides of the issue. There is a further complication at this time, arising primarily from the perceived failure to eradicate poverty in Canadian society; this is the renewal of interest in the concept of a universal guaranteed annual income, which is seen as a preferred means of simplifying the complicated income security field and, at the same time, providing an adequate safety net for alleviating poverty.

Here again, the issues that arise are difficult and controversial because – inevitably – such a comprehensive program must lead to the elimination or the major modification of most of the entrenched universal social programs. Furthermore, such a dramatic program initiative would have to avoid any negative connotations, particularly in terms of incentives to work.

The process of social policy review is seriously affected by the political and emotional climate in which it is undertaken. Canada's welfare system is very complex, not only in terms of jurisdiction and the allocation of responsibilities, but because the piecemeal evolution of the system has necessarily resulted from numerous additions and changes over many years. In an ideal world, we should begin again; however, in the real world, the entrenched interests of political parties, bureaucrats, special groups and, of course, the beneficiaries of the various programs, all constitute forces of resistance to change.

We have observed in recent years the bitter reaction that follows when governments seek to rob Peter to pay Paul, even though attaining the desired objective demands that funds be redirected from those of lesser need to those of much greater need. The extraordinary and successful campaign of senior citizens to force the federal government to abandon its 1985 plan to de-index public pensions – which was intended *not* to reduce the nominal value of Old Age Security, *not* to eliminate annual indexing of the benefits, *not* to target its beneficiaries, but simply to modify the extent of the annual increase – is a vivid example of the power of a well-organized and passionate lobby.

In a strange contradiction of the foregoing there was, however, the introduction in Canada of the Child Tax Credit in 1977, described by the Honourable Monique Bégin in her paper and interventions at the Colloquium. Here was a program that reduced the amount of the universal Family Allowance, and froze indexing of that allowance for a period, in order to create sufficient funds to permit the federal government to introduce the new Child Tax Credit, which was an income-tested program directed primarily at increasing the income of those in the lower and lowest family income brackets. And this was done in the midst of a period of severe government cutbacks, with very little public fanfare and little or no consultation outside the federal cabinet and bureaucracy. Furthermore, even though it involved significant reductions in a universal program to finance a new, targeted program, it attracted virtually no public criticism. Was this simply a consequence of timing, circumstance and economic conditions? Or was it perceived favourably because it is delivered through the 'universal' taxation system?

It is noteworthy that the introduction of the Child Tax Credit, virtually without consultation or advance publicity, encountered some serious practical problems of administration, and it was interesting to learn of parallels in take-up and delivery of some social programs in the UK. Two particular problems arose with Canada's Child Tax Credit:

1. First, in order to claim the benefit, it was necessary to complete an income tax return, a formidable task even for the initiated. However, given that many of the most needy of potential beneficiaries had never had occasion to complete a tax return, this was a serious impediment to take-up by a significant portion of the targeted clientele. The federal government found it essential to seek the help of voluntary organizations and provincial welfare departments; in practice, it was the social workers employed by the latter who carried the major burden in most communities of providing the necessary assistance for potential beneficiaries.
2. Second, the federal department of National Revenue (Taxation) had neither the resources nor the necessary systems to provide other than a single, annual payment as part of its normal process for assessing and refunding taxes. In the view of the voluntary organizations helping the poor, as well as provincial departments of welfare, this was a serious drawback to the program. This program deficiency had persisted since the program was started, but the federal government introduced legislation in the fall 1986 session of Parliament to provide for an advance payment in November each year, with the final payment to await the annual processing of tax returns the following spring. Continued study is being undertaken to devise means of more frequent payments.

The Prospects for Future Reform in Social Policy

Some of the recent attempts at program improvement or rationalization in the broad field of social policy have revealed the political traps awaiting governments that seek to initiate change, often under the compulsion of economic and financial pressures. And these traps or pitfalls are the most threatening when the reforms involve taking benefits away from some sectors of society—and this despite the argument that the 'savings' are to be re-directed to people of demonstrably greater need.

As the Johnson paper reveals, there have also been mistakes, or poor judgement at least, in program development in the past, exemplified in the virtual destruction of aid to the unemployed in the form of Unemployment Insurance and its 'reform' as yet a further measure of welfare with a special focus on ameliorating economic problems in particular regions of the country.

In addition, it is virtually redundant to point out that it is obviously easier to introduce a new universal program, as part of an election campaign, than it will be to modify that program later to benefit a targeted clientele.

In spite of the foregoing, it is evident that there are sectors of Canadian society with serious unmet needs. There are large numbers of single-parent families hovering at or below even the lowest of the semi-official poverty levels, together with considerable numbers of children in poverty – the "poor kids" of the reports by the National Council of Welfare. There are significant numbers of women in society (widows with inadequate income, women able to obtain work only at very low levels of pay) who are not yet old enough for an old age pension and associated benefits but whose incomes need to be supplemented. Finally, Canada has yet to introduce a program to supplement the incomes of the working poor, with particular reference to larger families, even though this was the principal objective of the Social Security Review of the 1970s.

A further complicating factor in the reform of income security is the extent to which income tax law has been used as a means of conferring social benefits in a variety of forms, ranging from exemptions for dependent children to age-related deductions for senior citizens. The overlap between social security and income tax has reached the point where tax reform must not be considered without special attention being directed to the implications of change for income security programs. One of the UK papers prepared for the Colloquium drew attention to the irony in the fact that heavy growth in revenue demands to meet the cost of welfare programs had imposed increased taxation on the near-poor, to the extent that many had become eligible for, and had successfully applied for, welfare benefits.[3]

The recent study by the IRPP of the Social Policy Process in Canada revealed the serious concern of the great majority of non-government organizations with the inadequacy – indeed the effective absence – of consultation on social policy analysis and development. It was recognized that policy making in Canada is a closed-door system, being restricted largely to conferences between federal and provincial cabinet ministers, supported by meetings of officials.

One of the steps taken by some non-government organizations to increase their influence on policy making has been to form coalitions and to seek media publicity for their discussions and conclusions.

Other organizations have largely abandoned the approach to bureaucrats as a means of making representations on policy and program issues, instead seeking meetings with ministers and ministerial staffs, with attendant publicity. Still other organizations have sought to exercise direct influence through representations to politicians in opposition.

Responsible officials argue, of course, that during times of economic restraint there is very little scope for change in social programs where additional expenditures are involved, and that rare is the representation that does not require additional funds. Hence, officials increasingly regard consultation as non-productive and tend to discourage it under present circumstances. Yet if social policy reform is to be undertaken, it requires careful planning; given the very important role of volunteer organizations in the welfare field, it is essential that they be closely involved.

Perhaps the most effective form of consultation would be planning sessions involving, on the one hand, representatives of coalitions of non-government organizations embracing broad fields of interest and, on the other, senior planners of the federal and provincial departments of social security and social services. To make these sessions useful and productive there must be an open exchange of statistics and information; this has been reported as a serious deficiency in previous attempts at consultation.

The aforementioned IRPP study also reported on the 'two solitudes' of economic analysis and social policy analysis and the growing conviction that major policy decisions in either sector without extensive cross-reference to the other was almost certain to produce unsatisfactory solutions. It is reasonable to conclude, given the demonstrated overlap between social security reform and tax reform, as well as the increasing need to inter-relate economic and social policy analysis, that new or modified organizations are needed to provide for *socio-economic analysis* of all major government initiatives in the interdependent fields of the economy and social security. Such integrated analysis and policy development would be expected to give greater shape and coherence to government policy overall and, at the same time, to facilitate comprehension by the public of the major policy issues under examination.

Finally, some way must be found in Parliament and the provincial legislatures to create bi-partisan instruments for examining major social policy issues in order to ensure objective study of those issues and to minimize the mis-direction of the public interest.

Notes

1. Cited in James Crossland, "The Constitutional Family", *Policy Options* 7/10 (December 1986).

2. John F. Graham, "Walking a Tight Rope", *Policy Options* 7/10 (December 1986).

3. Michael O'Higgins, "Social Politics and Demographic Pressures: Is the Response Adequate?", elsewhere in this volume.

Was There Ever Consensus? Public Attitudes to the Welfare State in Britain

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Introduction

The future of the welfare state is in doubt for a number of reasons: the changing demography and age structure of our populations, the seemingly insatiable demand for health care, and the intractable problems of maintaining reasonably full employment in a highly technological and changing economy. Although resolution of these issues would be difficult, it is believed by many to be technically feasible. The real question is often said to be whether the political will to implement such undoubtedly expensive remedies genuinely exists. The frequent disjuncture between popular beliefs, public expectations and political commitments illustrates the complex interaction of public opinion and policy formation.

This paper seeks to examine the role of public opinion in the welfare policy process. Remarkably, there has been little dedicated survey research on public attitudes to welfare benefits, and much that exists is either partisan or ideologically committed. Although this paper reviews some recent survey evidence, the principal objective is to raise questions regarding public attitudes to the welfare state that might be relevant for continuing discussion and to argue the importance of this dimension in the policy process.

Public Opinion and Policy Making

As used by political commentators, the notion of political will is usually taken to mean the determination of a government to secure a particular course of action. Governments and political parties are, generally speaking, responsive mechanisms and will seek to articulate a mandate only when convinced of the public popularity of their case. Yet although public opinion is a crucial variable in policy making, its significance remains largely ignored in discussions of change or reform. More often than not, public opinion is taken to be an implicit, rather than an explicit, component of debate.

This reluctance to admit the role of public opinion to policy making may have several roots; public opinion is often considered inconsistent, if not downright contradictory, and also to be frequently ill-informed in what may be highly complex matters. In a sophisticated liberal democracy, however, expressions of political opinion cannot be limited to general elections every four or five years. Neither still can the continual lobbying of special interests be seen as a wholly adequate surrogate for expressions of mass opinion.

Political parties have a responsibility to inform, educate and then reflect and express public opinion. This duty is especially relevant in complex technical matters, such as welfare policy. To arrive at their policy positions on these issues, parties debate internally the relative merits of schemes and programs proposed by various agencies, informed commentators, special interests, academics and in-service administrators. The electoral prerogative ensures, however, that concern about whether policy will deter or motivate support at the polls is, in its own way, an 'unseen hand' guiding their formulative policy deliberations. In this way public opinion is influential, but its main influence is indirect.[1] Even so, public opinion is an important element in policy making in three broad areas: agenda setting, legitimating decisions and delimiting the set of choices open to decision makers at various times.

Decision-making elites can, and do, ignore public opinion on occasion; they are also particularly well placed to exert an influence on the formation of public attitudes. It is a mistake to assume, however, that public opinion can be manipulated constantly or at will:

> Very often because of the process of electoral competition and the party strategies this creates and because of their own perceptions of public attitudes, decision makers follow rather than lead opinion.[2]

Areas of policy are not insulated each from each other, and the ability to pursue a generous welfare policy will clearly be related to the general state of the economy. These functional connections may be somewhat weaker, however, in the public mind. Few electors have a coherent ideological viewpoint and consistent attitudes on all issues. Similarly, few political parties remain totally consistent, and when a party takes office, the temptations of piecemeal pragmatism often prove irresistible. Although public debate among political parties in Britain has become increasingly ideological in tone, at a popular level, the debate deals in rather broader concepts and seeks to highlight evocative values. Such general value systems are more fundamental than specific attitudes to individual policies, but are they totally inflexible? In recent years in Britain, in a desire to break away from pluralist stagnation, political debate has become oriented increasingly towards competing values. In an effort to resolve the balance between the collectivism of state involvement and intervention and the individualism of a more minimalist position, the previous broad-based consensus about the ethos of government appears to have broken down.

In respect of welfare issues, public opinion is coloured perhaps by a vague amalgam of altruism and self-interest. Altruism was certainly an important element in the initial conception of the welfare state and even now is invoked occasionally from the conference platform. Most recently the Social Democratic Party launched its new tax and benefit proposals with the appeal that a civilized Britain could not ignore the plight of 16 million people living in poverty and therefore would accept the taxation burden that resolution of this problem demanded.

Self-interest is important because we will all grow old and will all fall ill at some point. Yet deferred gratification may well prejudice one's willingness to contribute at the present, and any acquired glow of altruism derived from participation may not compensate for the loss of disposable income. As Beer has shown, there is a sophisticated version of the Prisoner's Dilemma at work; when benefits are available to all those fulfilling some criteria but are financed by all, irrespective of circumstances, the rational, self-interested individual may well choose a selfish course of action.[3] Others would go further, maintaining that it is the individual's obligation to support his own and his family's welfare needs. It can also be argued that a greater sense of altruism – an indicator of a civilized society perhaps – could be achieved through individuals undertaking more voluntary and charitable works.

The ability to opt out of state provision of welfare is dependent upon disposable income, which depends in turn on tax policy and the general state of the economy. Public attitudes to welfare will thus vary relative to these and other indicators. Opting out is likely to be feasible only for the well-to-do, however. For others, a relative sense of the adequacy of the provisions and satisfaction with them will determine their views.

The argument suggested here, then, is that public attitudes are influential in creating a broad climate of opinion in which the policy-making process takes place. On welfare issues in particular, attitudes will vary according to circumstances, but in recent years, they have probably fluctuated around a consensus on what constitutes 'normal' provision. In this context 'normal' may well mean minimum, although not in the sense that welfare planners define minimum provision. Public expectations seem to have quickly accepted the present level of provision as the minimum level, a situation that has undoubtedly contributed to the present crisis in the welfare state. A more radical restructuring of attitudes is being attempted in Britain by the most ardent New Right supporters, but its success remains unproven. Just as successive generations have grown up accepting the broad provisions of the welfare state, so only time will tell whether the post-Thatcher generations will espouse more market-oriented, individualist values and attitudes.

The Welfare Consensus

The post-war consensus was based on the common acceptance by the main political parties of the mixed economy and the interventionist role of the state. This common purpose was once caricatured as 'Butskellism', but today differences about the fundamental purposes of the state are at the very centre of electoral competition among the parties. Indeed the major changes seen in the British party system in the last five years result from such divisions. Competition has been for the hearts and minds of the electorate and highly ideological in tone; although gross public expenditure has not been reduced, the electorate has been left in no doubt about which parties favour state action and which do not. Although many policy choices continue to be resolved on pragmatic grounds, the consistency of the rhetorical stance has been largely maintained. Similarly, the commitment to cut public expenditure may not have been achieved at a gross, absolute level, but it is all too apparent in many areas of the public sector.

All three main political parties in Britain remain eager to claim the welfare state as their patrimony. Liberals, and hence the Alliance, recall that Beveridge and Keynes were Liberals and that Lloyd George laid the foundations of the National Insurance Scheme. The Labour Party constantly reminds us of the achievements of the post-war Attlee government and of the creation of the National Health Service, while the Conservatives claim credit for that conceived during the wartime coalition under Winston Churchill and for the 1944 Education Act of Rab Butler.

These claims, while competing, are not necessarily fraudulent, for the system of taxes and benefits that constitutes the welfare state has, in many ways, genuine all-party parentage and, in principle, still enjoys all-party support. Little wonder, perhaps, when survey evidence suggests that the welfare state is still widely believed to be one of Britain's finest post-war achievements. The real nature of this apparent consensus needs to be examined further, however.

For convenience, it is assumed here that the welfare state dates from the Beveridge Report and its implementation during the 1945-1950 government, even though much of that legislation drew upon earlier welfare provisions and regimes. The Beveridge Report was published during the war and was associated with the official War Aims. Such reforms were part of the 'better Britain' that was being fought for. Indeed, this association prompted Winston Churchill to distance himself somewhat from the proposals, lest false expectations be raised:

> A dangerous optimism is growing about the conditions it will be possible to establish after the war. . . . It is because I do not wish to deceive the people by false hopes and any visions of Utopia and Eldorado that I have refrained so far from making promises about the future.[4]

Notwithstanding this disclaimer, the crucial test remained the election of the Conservative government in 1951. When the welfare legislation was not repealed, the broad post-war consensus had been achieved. The consensus remained, however, one of principle rather than policy. Then, as now, the argument was about policy rather than the fabric of the system, *pace* Mrs. Thatcher's 1983 statement, ". . . the National Health Service is safe in our hands". The commitment in principle is not disingenuous, as many believe, but dependent upon what are accepted to be the principles at issue: What is the baseline for the welfare state? How high or low should the safety net be strung? How specific or universal should benefits be made?

The original intentions behind the Beveridge Report seem unambiguous on such questions:

> The principle of the Social Security Scheme is to ensure for everyone income up to subsistence level in return for compulsory contributions, expecting him to make voluntary provision to ensure income that he desired beyond this. One consequence of this principle is that no means test of any kind can be applied to the benefits of the scheme.

> Another is that the scheme does not guarantee a standard of life beyond subsistence level; men whose powers of earning diminish must adjust themselves to that change.[5]

Problems arise, however, in implementation and as expectations rise. Once genuine consensus prevails, the political parties can compete only by promising more than their rivals. Beer has described this phenomenon in British politics as the paralysis of public choice and argues that more natural competitive political processes need to be reasserted in Britain.[6] Thus, fundamental debates in contemporary politics now address questions such as whether the ratchet effect of growing state intervention, involvement and public expenditure can ever be reversed. Will politicians ever be able to take the tough decisions that are commensurate with their rhetoric? Or will the outcome always be, as suggested recently by that frustrated supply-sider, David Stockman, the "triumph of politics"?[7]

The foundation of the welfare state in the post-war years also illustrates two further related issues: the difficulties of negotiating with entrenched interests to introduce the basic provisions of the new service and public reaction to the introduction of services. The nature of the compromise reached between the doctors and Aneurin Bevan, albeit pragmatic at the time, has been held to have introduced a flaw into the fabric of the National Health Service that has never been adequately resolved, and issues surrounding private practice continue to dog the service to this day.

Similarly, the response of the mass population to the welfare system has been variable. As a legacy of earlier arrangements for providing for the welfare of individuals, an undercurrent of thought has persisted; many people will always maintain that private provision is superior to state provision of welfare. Whether through pride or ignorance, the attitude remains commonplace that personal dignity is somehow affronted by the acceptance of state aid, seen in this context as charity. Such attitudes are often generational and are now most prevalent among the elderly. In the early years of the welfare state, however, these age cohorts would have constituted the majority of the population.

More recently, a generation has matured that accepts the benefits of the welfare state as standard, normal and inviolate. Neil Kinnock, leader of the Labour Party and born in 1942, frequently makes this point when extolling the virtues of the welfare state. It remains true, however, that for many, private provision of welfare benefits remains qualitatively superior to reliance upon the state. Thus a strange paradox appears: there is consensus that the welfare state is inherently a good thing, but at the same time the virtues of private provision have become invested with a superior glow, whether warranted or not. Confronting this attitude is a more widespread liberal dilemma, whereby the steps necessary to achieve broad egalitarianism remain popular and morally attractive, but great reluctance exists to adopt measures effective in advancing equality.

Public Attitudes and the Welfare State

While public opinion is primarily a background variable in the policy-making process, there are occasions when its effect is more pressing. Election campaigns are designed to mobilize public support for a package of policies and to secure the election of the party committed to implementing them. Campaigns primarily shape opinion, but the process of mobilizing support also serves to make parties actually responsive to the public at such times. Therefore the extensive literature on political behaviour and elections provides useful data for evaluating the importance of the welfare state relative to other contemporary policy issues. Specific welfare issues are also likely to engender separate individual attitudes, irrespective of party platforms. These specific attitudes are likely to be durable and consistent over time, while the relative importance of welfare as a composite issue, as demonstrated at elections, may be more variable.

Butler and Stokes demonstrated how social welfare issues were particularly important in the early 1960s and how their salience diminished over the subsequent decade.[8] The electorate firmly believed that a greater proportion of government spending should go to welfare services and also perceived sharp differences between the parties on this issue. Among voters who were committed to greater expenditure on social services and who believed the Labour Party best equipped to implement such a policy, the swing to Labour between 1959 and 1963 was 9.6 per cent, contrasted with only 2 per cent to Labour among those not especially concerned about social services.[9]

The relationship between issues and voting is complex. To be highly salient to the electoral outcome, an issue must be clearly perceived and ranked high relative to all other issues; moreover, one party must enjoy a clear advantage in public confidence about its handling of that issue. Inevitably, most individuals' party preferences over a wide range of policy issues are not unanimous. Thus there is a self-cancelling process whereby, for example, Labour's advantage on social welfare issues is offset by the Conservatives' advantage on law and order issues. Furthermore, the eventual outcome is not determined solely by the result of the policy-party equation, but is clouded by other considerations, including general party image, leadership, the sense of 'time for a change' and a host of other intangibles. Therefore although one might say that welfare issues were significant in the 1960s and contributed to Labour's electoral successes, it cannot be claimed that the party's position on these issues determined the electoral outcome.

Labour has enjoyed an advantage on welfare issues because it is widely believed that it will spend more money on such services. Many electors will always rank the welfare issue high in importance; for others, as the general level of satisfaction with welfare provision increases so other issues may become relatively more important. Butler and Stokes show this change over time (Table 1), but go on to demonstrate as well how party advantage may dissipate over time, especially as the opposition party's policies begin to look more attractive and opposition rhetoric begins to outbid the government in its commitment to expenditures (Table 2).

Table 1
Perceived Need for Increased Spending on Social Services 1964, 1966 and 1969

Q: Do you feel that the government should spend more on pensions and social services or do you feel that spending for social services should stay about as it is now?

	Autumn 1964	Spring 1966	Summer 1969
Should spend more	77%	54%	43%
Should stay about as it is now	20%	42%	52%
Don't know	3%	4%	5%

Source: Butler and Stokes 1974, 299.

In the elections of the 1970s and 1980s more basic economic issues assumed higher priority on the nation's electoral agenda. The issues of prices, inflation and, most recently, unemployment have dominated electoral campaigns. Although full employment was an element in the original Beveridge conception of the welfare state, this commitment seems to have been detached. Unemployment was believed overwhelmingly to be of overriding concern at the 1983 election, as it is in the current polls, but the issue could not be turned to advantage by the opposition parties or used to thwart the government's re-election campaign. Unemployment became, in a sense, depoliticized because the electorate did not have a clear view of which party might best alleviate it.

It seems unlikely that welfare will ever be similarly neutered. In a determined effort to break away from the slow creep of government and the electoral temptation to promise to spend ever more, the Thatcher government has allowed the current debate to be presented largely as a stark choice: the role of the state and the size of public expenditure are portrayed as a trade-off between benefits and taxes. Indeed, around the world administrations eager to reduce the role of the state have generally included tax cutting as part of their programs. The public response to such a choice may well be inconsistent, as Gunnar Myrdal once noted:

> The ordinary man in all our countries is inclined to demand more and better public services . . . and at the same time higher retained income for his private consumption.[10]

Table 2
Perceived Position of the Parties on Spending on the Social Services, 1964-1970

Q: Which party would be more likely to spend more on pensions and the social services?

	Conservatives	Labour	Not much difference	Don't know	(Lab% - Con%)
Autumn 1964	8%	69%	16%	7%	+61
Spring 1966	7%	64%	23%	6%	+57
Summer 1970	17%	48%	29%	6%	+31

Source: Butler and Stokes 1974, 301.

Survey research has sought to project tax cutting and increased welfare expenditure as mutually incompatible, and Table 3 reveals repeated samples of opinion about this issue in Britain from 1978 to the present. The data present an unclear picture. The demand for tax cuts, even if this meant some reduction in benefits, has never commanded majority support, although this view was supported by a third of the electorate prior to the 1979 election. During the years of the Thatcher administration, the demand for (further) tax cuts has

Table 3
Tax Cuts versus Government Spending

Q: People have differing views about whether it is more important to reduce taxes or keep up government spending. How about you? Which of these statements comes closest to your own view?

	Month/Year													
	6/86	2/86	2/85	11/84	5/84	3/83	2/82	3/81	4/80	3/80	11/79	10/79	3/79	10/78
	(% in agreement)													
Taxes being cut, even if it means some reduction in government services, such as health, education and welfare	17	16	16	12	14	23	21	20	23	21	25	20	34	25
Things should be left as they are	14	19	18	24	25	22	26	23	25	24	23	26	25	23
Government services such as health, education and welfare should be extended, even if it means some increases in taxes	64	60	59	58	54	49	49	49	44	48	44	44	34	39
Don't know	5	5	6	7	7	6	5	8	8	7	9	10	7	13

Source: Gallup Political Index.

fluctuated and most recently has been supported by about one-sixth of the electorate. Support for greater welfare provision, however, even at the price of tax increases, has risen steadily over this period, almost doubling between early 1979 and mid-1986. Support for the status quo has diminished in similar proportions.

It should be noted that these trends are, in the main, independent of monthly movements in political party support. Yet tax cuts or increases in benefits, when actively proposed by a party likely to win the next election, ought to have some impact upon the electorate's opinion profile. Clearly the data do not reveal a mandate for tax cutting, but then the electoral mandate claimed by Mrs. Thatcher—of which this would be but one part—is a complex phenomenon, not merely the sum of attitudes to specific policies. Policy alternatives are also more complex than is suggested here. Of course, taxes may well be cut, but others might rise simultaneously; overall welfare expenditures can be cut while still allowing selective and visible increases in individual programs.

Survey evidence also shows that it is a mistake to treat the welfare state as a uniform entity.[11]

> The evidence reinforces the view that a general climate of opinion exists among the public that strongly supports services for the elderly, the sick and disabled, education and the National Health Service, and is antipathetic to benefits for the unemployed, low paid, lone parents and children.[12]

Some welfare programs will be inherently more popular than others, and this natural preference will affect their public support. Thus, politicians and policy makers have considerable freedom of action in attempting to change the basic welfare consensus by either concentrating attention on the unpopular programs or, by compensating for changes elsewhere, enhancing the provisions of popular schemes. Because of this differential level of support within the broad consensus underlying the welfare state, it is important to note relative changes of opinion over time rather than the absolute level of public support at any one moment.

Further data from recent Gallup polls about the desired level of public expenditure on various aspects of the welfare state again fail to reveal a clear picture of public choice. For education, the National Health Service, and old age pensions, a steady increase in the proportion wishing to see higher government expenditure is apparent between 1977 and 1986 (Table 4). For these highly popular benefits, very few people actually wish to see less money spent; thus the degree of satisfaction with the status quo provides the most important

Table 4
Level of Desired Government Spending

Q: Do you think the government is spending too much, too little or about the right amount on:

	Month/Year											
	7/86	9/85	6/85	7/83	2/83	6/82	7/80	3/80	11/79	6/78	10/77	2/77
	(% in agreement)											
Education and Schools:												
Too much	3	1	4	5	5	6	3	5	11	8	10	13
Too little	81	78	74	67	72	70	66	65	59	52	58	55
About right	11	17	15	20	17	18	23	22	22	29	23	22
Don't know	5	4	7	8	5	5	5	8	8	11	10	10
The National Health Service:												
Too much	2	1	2	4	5	4	4	4	6	4	8	12
Too little	82	80	77	70	71	70	70	68	60	66	59	53
About right	13	16	17	23	19	21	22	22	26	22	25	26
Don't know	4	3	5	3	5	5	4	6	7	7	7	9
Old Age Pensions:												
Too much	1	2	1	2	1	1	1	1	2	1	2	3
Too little	77	71	70	64	64	66	54	59	52	44	61	62
About right	18	20	24	30	29	27	38	31	38	48	32	31
Don't know	4	7	5	4	5	5	8	9	9	7	5	4

Source: Gallup Political Index.

political indicator. Again there is no strong correlation between these data and changes in party popularity or any other long-term trends such as the rate of inflation. Demand for such benefits is not especially class-related but is constant.[13] Radical policy makers hoping to achieve a shift away from state provision in these areas must seek to persuade a growing proportion of the public to accept the status quo. This will require a considerable revision of expectations, for such is the uniformity and depth of the welfare consensus in Britain today, that for certain policy areas it is never possible to argue that too much is being spent.

Conclusions: The Political Options

The complexity of the welfare state is self-evident. An apparently simple premise has been transformed, through implementation and repercussive policy making, into a veritable giant of government. The Social Security budget alone currently exceeds £28 billion, and the National Health Service is often ridiculed as being the largest single employer in Europe, apart from the Red Army. The public at large can barely comprehend, let alone have a unanimous opinion about, this vast enterprise. Yet public opinion remains important. Elite opinion both shapes mass opinion and responds to it. Those responsible for policy making must secure popular support for their programs if they are to implement them, and conforming to known public preferences will help facilitate a government's execution of its mandate. Equally, however, policy makers have an obligation to lead and educate public opinion if necessary. This makes for an uneasy relationship, particularly because:

> The temptation to encourage false expectations among the electorate becomes overwhelming to politicians. The opposition parties are bound to promise to do better and the government party must join in the auction—explaining away the past and outbidding its rivals for the future, whether by general hints or detailed promises.[14]

It follows that radical changes leading to a diminution of welfare are extremely difficult to promote. However, assuming that any government in Britain will remain concerned about the size of the public sector borrowing requirement, if not the more theological aspects of reducing the role of the state, certain broad courses of action to facilitate change might be more appropriate than others. While such questions will remain unresolved, whatever the absolute level of welfare provision, a number of useful generalizations may still be made. They suggest that the broad climate of opinion may, in fact, be more responsive to change than is often believed.

- Public opinion on welfare issues demonstrates an 'opposition effect', whereby the policies of the opposition always appear to be gaining in attractiveness. The government, as the 'welfare state', can never satisfy demand.
- Popular aspects of the welfare state, such as education, pensions and the National Health Service, have high electoral salience but seem unlikely to determine the electoral outcome unless coupled with a strong sense of 'time for a change' in respect of the incumbent party.
- Because of the unpopularity of cutting the programs of the welfare state, change is being forced through policies of attrition and neglect. Such strategies seem more likely than attempts at ideological conversion to reduce expectations over time.
- Are broad value systems within our societies changing, such that physical and economic security are now largely taken for granted and 'higher order' values, such as greater liberty, choice and participation, are gaining greater significance?[15] If so, a restructuring of attitudes and priorities will follow.

There does appear to be widespread support for the welfare state in Britain. But it is consensus regarding the principle of welfare provision rather than a defence of particular programs or institutions. As such, it gives policy makers considerable scope for planning change. But politicians will be wary, for public opinion appears fickle, especially when committed to an open-ended concept such as the welfare state. In Britain, the Conservative Party under Mrs. Thatcher has attempted to change the public's view of the role of government and the state, but it remains to be seen to what long-term effect. An ardent advocate of such change from the Institute of Economic Affairs, whose economic liberalism has been transported from the political fringe to the mainstream in just 25 years, still writes pessimistically:

> Yet we cannot depend on a government of any party to liquidate the Welfare State as an act of patriotism or in response to public preferences. In the end it will be market forces that will make the Welfare State yield to private choice and technical advance.[16]

But will politicians ever surrender control to such articles of faith? Chastened by his experiences in the White House, David

Stockman reiterates the essential dilemma of reform in a liberal state – whether long-term goals can ever outweigh short-term losses:

> Economic governance of the world's greatest democracy has been shown to be a deadly serious business. There is no room in its equation for scribblers, dreamers, ideologues and passionate young men bent upon remaking the world according to their own grand prescriptions. The truth to be remembered is that history in a democracy does not live to be rewritten and rerouted, it just lives for another day, finding its way into the future along the trajectory of its palpable past.[17]

Inevitably, on both sides of the Atlantic, politics will continue to triumph over ideology, and consensus over conviction.

Notes

1. P. Whitely, "Public Opinion and the Demand for Social Welfare in Britain", *Journal of Social Policy* 10 (1981), p. 457.
2. Ibid., p. 461.
3. S. Beer, *Britain Against Itself* (London: Faber, 1982), Chapter 1.
4. Cited in D. Fraser, *The Evolution of the British Welfare State* (London: Macmillan, 1973), pp. 202-203.
5. Ibid., p. 266.
6. Beer, op cit., p. 15.
7. D. Stockman, *The Triumph of Politics* (London: Bodley Head, 1986).
8. D. Butler and D. Stokes, *Political Change in Britain*, 2nd ed. (London: Macmillan, 1974), p. 297.
9. Ibid., p. 299.
10. Cited in Whitely, op cit., p. 455.

11. A. Heath et al., *How Britain Votes* (Oxford: Pergamon, 1985), p. 137.

12. P. Taylor-Gooby, *Public Opinion, Ideology and State Welfare* (London: Routledge & Kegan Paul, Ltd., 1985), p. 29.

13. Heath, op cit., p. 137.

14. S. Brittan, "The Economic Consequences of Democracy", *British Journal of Political Science* 5 (1975), p. 139-40.

15. These ideas are discussed at length in R. Inglehart, *The Silent Revolution* (Princeton, N.J.: Princeton University Press, 1977).

16. A. Seldon, *Whither the Welfare State*, Institute of Economic Affairs Occasional Paper 60 (London: 1981), p. 48.

17. Stockman, op cit., p. 421.

Poverty in the United Kingdom: A Challenge for Policy and Politics

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Introduction

Despite four decades of the post-war welfare state, large-scale poverty still exists in the United Kingdom. In some quarters, this persistence of poverty has led to despair about the value and potential of all public social policies. In other quarters it has stimulated a spate of proposals for reform, ranging in scope from the marginal to the grandiose. Poverty is at the heart of most social problems in modern Britain: it is associated with ill health, early death, squalid housing conditions, inner city decay, crime, low educational attainment, marital disharmony, family violence, mental illness, loneliness, drabness and neglect. Although it is difficult to disentangle cause and effect – we are often observing multiple deprivation – there is no doubt that an attack on poverty is an attack on the very worst aspects of our society. (Affluence has its diseases, but poverty's are far worse.) Poverty is therefore the most important target for research and action in social policy.

Concepts

The notion of poverty is not uncontroversial. A good deal of the intellectual effort devoted to the subject in the last three decades has been concerned with definition and measurement. This task is not complete; nor, probably, will it ever be completed. Yet most people would now agree that poverty can no longer be conceived of as an absolute state – for example, the inability to purchase the requirements needed to maintain physical health. These minimum subsistence concepts dominated thinking before the war and influenced the basis of the Beveridge proposals (Beveridge 1942) and the post-war social security scheme. They have now given way to an understanding that poverty is a relative state.

The attack on the subsistence approach, which took place in the 1960s, focused largely on the scientific pretensions of the budget standard methodology of Rowntree and Beveridge. Abel Smith and Townsend (1965) condemned the value judgements they saw obscured by the 'objective' criteria of the primary poverty definition developed by Rowntree and employed by Beveridge. They argued that it was an inappropriate method of defining poverty because it was based on a range of physical needs that actually had an ideological rather than a scientific basis. Needs consist of more than just the physical necessities of life: the poverty level was too harsh, mere physical efficiency was not enough, poverty also had a social meaning. Thus at an international conference on poverty in 1966, Rein concluded that "almost every procedure in the subsistence level definition of poverty can reasonably be challenged" (Rein 1970, 61).

Townsend, in almost a lifetime's work, has been the principal elucidator of the relative definition of poverty. His work is still continuing, both conceptually, in a recent distinction between relative deprivation and poverty (Townsend 1986a), and empirically, in a new survey funded by the late Greater London Council (Townsend 1986b).

Townsend has never been less than ambitious. He did not rest at defining poverty, he also sought to measure it and apply it to policy. He argued that benefit rates were, like Rowntree's concept, based too much on subsistence ideas and not enough on how people actually live. In his view the government's poverty line should not be a minimum subsistence standard but a minimum *participation* standard. He boldly claimed that "poverty can be defined objectively and applied consistently only in terms of relative deprivation" (Townsend 1979, 31). Townsend's major study of poverty set out, among other things, to operationalize and define the customary life style of Britain in which even the poor should participate; to estimate the number falling below this participation line; to find the income point at which participation decreased rapidly; and to estimate how much benefits would have to be increased to prevent people falling below the minimum participation line. In many aspects he succeeded. He operationalized relative deprivation, using a list of 60 indicators. By correlating non-participation with income and demographic characteristics, he was able to find a deprivation 'threshold'. These results were subsequently validated by Desai (1986) using regression analysis, though there is still argument about that analysis (Piachaud 1986).

Townsend's results, like Rowntree's before him, were much misrepresented and misunderstood. He was criticized particularly for the methods used in compiling the deprivation index: the criteria he used to select the final 12 indicators making up the index were not made explicit in his study. Furthermore, some have questioned whether the deprivation index bears any necessary relation to income or need. Critics could not understand the value of the index if 10 per cent of those earning the largest incomes in Townsend's study lacked five or more of his deprivation indicators—enough to be included among the poor. Piachaud (1982) concluded that Townsend's style of living approach was "of no practical value whatsoever as an indicator of deprivation".

A more recent major survey of poverty conducted for Thames Television refined and extended Townsend's method and presented a more democratic representation of deprivation by establishing indicators of minimum living standards on the basis of a public consensus (Mack and Lansley 1985).

The relative concept of poverty has, without doubt, enlightened us. It has enabled us to confront the dilemma of understanding poverty within affluent societies as well as between the Western and the Third World. It has helped to focus attention on inequalities in income and wealth. It has provided a perspective from which to view the fallacies of the culture of poverty (Valentine 1968) and ideas about transmitted deprivation (Brown and Madge 1982). It has pointed to the structural causes of poverty. So relative ideas have been immensely important. However they have not had much impact on policy.

The assistance scales recommended by Beveridge in 1942 were based on minimal dietary requirements together with allowances for clothing, fuel and other household costs. Beveridge's assumptions were informed by some rather thin data derived from a Ministry of Labour survey of the expenditures of the working classes, as well as Rowntree's work. Beveridge's calculations, with some modification, formed the basis of the National Assistance Board rates set in 1948.

Those rates have risen since 1948: first, as a process of incremental drift, then, more explicitly in line with earnings or prices. Since 1979 they have been formally linked to movements in the retail price index (RPI), though in fact they have done rather better than that. Since 1948 rates have more than doubled in relation to the RPI, though there is considerable evidence that the RPI is not a good indicator of changes in the living standards of claimants (Godfrey and Bradshaw 1983). In comparison with earnings they have more or less kept their value. The scales have never been revised to reflect some official and explicit determinants of the relative (or absolute) standard of living that the government thinks is adequate or appropriate.

The issue of adequacy has been much neglected in British discourse. In the White Paper that followed what purported to be the most substantial review of social security since Beveridge, it was dealt with in two sentences:

> There have been many attempts to establish what would be a fair rate of benefit for claimants. But it is doubtful whether an attempt to establish an objective standard of adequacy would be fruitful. (DHSS 1985, 21)

The issue of adequacy is important for two reasons. First, one person in eight in the United Kingdom is dependent for all or part of their income on supplementary benefits (the British social assistance scheme). They include more than two-thirds of the unemployed, half of all single parents, a quarter of retirement pensioners and a substantial minority of the sick and disabled. Second, the level of supplementary benefit has become the conventional criterion for counting the numbers in poverty (the government prefer to use the words 'low income').

In my view the social indicator methods used by the relativist school have been of very little assistance in assessing the adequacy of benefits. We would do well to learn from Canadian cities like Toronto (1983), which has continued to develop the budget standard methodology pioneered by Rowntree. They have demonstrated that to associate budget standards with subsistence concepts of poverty is misleading. Budget standards can represent contemporary necessities, including aspects of social participation. Furthermore they need not be based entirely on normative judgements (Bradshaw, Mitchell and Morgan 1987).

In the absence of an authoritative and official view of the adequacy of the supplementary benefit level, we have to make judgements on the basis of a variety of empirical evidence (see the review by Cooke and Baldwin 1984). Perhaps the most evocative study on the subject was carried out by Piachaud (1981). He attempted to assess the adequacy of the scale rates payable for dependent children by drawing up a schedule of the minimum requirements necessary to maintain a modest modern lifestyle and found that benefits would need to be increased by 50 per cent even to purchase this frugal fare. More recently, Bradshaw and Morgan (1987) drew up a basket of goods constrained by what a family with two children actually spends while on benefits. The food basket was subjected to dietary analysis of nutritional adequacy and found to be deficient by 6500 calories, low in fibre, high in salt and fat, and deficient in iron. Yet the food expenditure was being sustained at the expense of other items in the budget. Thus, for example, mothers were spending only 94p ($1.92) per week on clothes and shoes. It is impossible to maintain a minimum wardrobe of clothes on this amount. This study, like others, showed that the level of supplementary benefit is really only just enough to provide a boring diet and limited lifestyle for a well-managed household if they have no vices. There is cumulative evidence that life on benefits is particularly bleak for the families of the unemployed with young children.

Numbers

Every two years the Department of Health and Social Security (DHSS) publish the results of an analysis of low-income families using the Family Expenditure Survey. The analysis is always out of date; the latest data for 1983 were published in July 1986 (DHSS 1986). The results are summarized in Tables 1 and 2.

Table 1
Estimated Number of Families and Persons with Low Incomes, 1983

	Great Britain (thousands)		
Relative net resources	Families	Persons	% of total persons in the population
Below SB levels	1880	2780	5.2
On SB	3640	6130	11.4
Above SB and up to 110% of SB	1080	1810	3.3
111% - 120% of SB	920	1670	3.1
121% - 140% of SB	1860	3990	7.5

SB Supplementary Benefits.

Source: UK Department of Health and Social Security 1986.

There is some debate about the validity of these 'official' statistics on poverty. Thus, for example, if the real value of supplementary benefits (SB) increases, then the number of people living in poverty also increases. About a third of the total increase in the number of families in poverty between 1981 and 1983 was attributable to an improvement in the real value of SB (by about 6 per cent). There is also disagreement (Ashton 1984) about whether the poverty line should be drawn at 100, 110, 120 or 140 per cent of SB. If it is drawn at 140 per cent then 30.5 per cent of the population is living in poverty, which is perhaps not credible. On the other hand, people actually living on SB on average have incomes rather higher than the basic scales because of additional payments to meet special needs, dissavings from disregarded capital, income from part-time work, borrowing or gifts. The amount of these other sources of income varies for different types of claimant, but Millar (1985) suggests that 110 per cent of SB is a more typical income level to take as representing the actual living standards of those on SB. If we take that level we find that 19.9 per cent of the population of the UK is living at or below the poverty level.

Who are they and why are they?

Table 2
Estimate of Families Living at or Below 110 Per Cent of Supplementary Benefits, 1983

	Great Britain (thousands)				
Relative net resources	Pensioners	Unemployed	Sick and disabled	Single parents	In full-time work
Below SB	870	370	50	30	290
On SB	1600	1290	170	460	
Above SB and up to 110% of SB	620	160	30	10	160
TOTAL	3090	1820	250	500	450
Proportion of group in poverty (%)	46.7	78.8	29.8	52.6	3.0

Source: UK Department of Health and Social Security 1986.

Groups

The poor in Britain can be divided into five distinct groups: the unemployed, the retired, single-parent families, low-income families, and sick and disabled people.

The unemployed

In 1986 over three million people registered as unemployed. More than three-quarters of the unemployed and their dependents are living in poverty. Of course, the unemployed owe their poverty largely to the lack of demand for their labour, and the solution to that lies in economic and labour policies. However, their living standards while unemployed are determined by the social security system. The unemployment insurance system has all but broken down. Insurance benefits require a contributory record, and unemployment benefits last only a year. Many of the young unemployed have never worked, and over a million of the unemployed have been without work for more than a year and have therefore exhausted their benefits. Thus two-thirds of the unemployed are dependent on the means-tested supplementary benefit (and a further 370,000 are eligible and not claiming it). Because of government anxieties about maintaining work incentives, those on SB are entitled to only the ordinary (lower) scale rates, however long they have been on benefit. For a couple with two children aged 7 and 11, this is £73.90 ($150.75) per week, along with their housing costs. This is £12.25 ($24.99) per week less than they would be receiving if they were not unemployed claimants. The number in poverty who are unemployed has been increasing rapidly and has continued to increase since 1983 with the continuing growth in long-term unemployment.

Retirement pensioners

Pensioners are still the largest group in poverty. Almost all of them are receiving the flat-rate national insurance retirement pension. They are in poverty because the level of that pension, together with any earnings-related element or (in the absence of an occupational pension) part-time earnings, savings or other income, is not sufficient to lift them above the poverty level. Just over a fifth of all pensioners claim the supplementary benefit, and 870,000 appear to be eligible but are not claiming SB. Between 1979 and 1983 there was a small drop in the proportion of pensioners dependent on SB. There are two countervailing forces at work: a growing proportion of pensioners are retiring with occupational pensions, savings, capital assets and supplements to the basic retirement pension, but these are offset by an increasing population of pensioners who have exhausted their savings and assets and whose occupational pensions have not kept pace with inflation.

Single-parent families

Beveridge made no provision whatsoever for single-parent families other than widows and their children. A steeply rising rate of marital breakdown has led to a rise in the number of single parents. One marriage in three ends in divorce, and a quarter of all children spend some of their lives in single-parent families (Brown 1986). In the absence of any other social security benefit, those unable to work have become dependent on supplementary benefit. There are 950,000 single-parent families in Britain (14 per cent of all families with children), and half of them are dependent on SB. For many single parents, dependence on the supplementary benefit is a relatively short experience – they remarry or obtain work and move off benefit and out of poverty. However, Millar (1984) found in one sample that over half had been on benefit continuously for more than two years. Most single parents not on benefit are not in poverty. However, even if single parents are able to work, domestic commitments restrict earnings potential and child care costs reduce disposable income. There is also some evidence that the fall in the demand for labour has had the greatest impact on single parents (Millar 1986). Certainly the proportion of single parents dependent on SB increased from 37 per cent in 1979 to 48 per cent in 1983. The number of single-parent families is still growing at a rate of about 5000 per year.

Low-income families

About 750,000 families containing nearly two million people are living in poverty despite the fact that the head of the family is in full-time work. They are in poverty because their earnings are too low, because the tax threshold is at a level that reduces their net incomes further, and because the benefits that are available to boost incomes in work are not high enough or are not claimed.

Low pay is endemic in Britain, and with declining opportunities for overtime earnings and for second earners in a family to work, low earnings are an increasing cause of poverty. Low wages are concentrated in certain regions and industries and are most prevalent among the unskilled, women and young people.

The great majority of the working poor are living in families with dependent children. They are in poverty partly because their earnings do not meet the needs of their families but also because the level of the child benefit is too low and the means-tested benefits available to families in work – notably the housing benefit and family income supplement – are not claimed by many of those who are eligible. Since the war, support for families with children through the tax benefit system has declined in value. Child benefits in the UK are among the lowest in Europe (Bradshaw and Piachaud 1980), and the nature of support for working families is particularly dependent on means testing. Most of those families in work living *below* SB level are there because they have failed to claim means-tested forms of help, despite the considerable efforts that have been made to publicize their availability.

Sick and disabled people

This group was also covered inadequately by the Beveridge scheme. The post-war social security system took account of those disabled in war and those disabled at work but ignored most of the civilian disabled. The inequity of this situation has begun to be recognized, and successive governments have enacted a stream of new benefits to help fill the gap. An invalidity benefit was introduced to replace and enhance the long-term sickness benefit. The contributory principle was not allowed to stand in the way of an income replacement benefit (which is not means tested) for the civilian disabled – the severe disablement allowance. There are also attendance and mobility allowances and a benefit for those who give up work to care for dependents (the invalid care allowance). The problem with the income maintenance benefits for the disabled is their level; a substantial number of sick and disabled people are having to turn to means-tested benefits to supplement their disablement benefits.

Policy

There are three broad schools of thought for tackling the persistence of poverty, and I shall discuss each of these in turn.

The incremental selectivist school

This school is represented now by the present government. Since the war, however, policy innovations have tended to be incremental and selective, regardless of the government in power. This school believes that substantial redistribution to relieve poverty is either not possible, not required or not desirable; that social security expenditures, already taking a third of public expenditures, are growing too rapidly; and that with pressures from demographic change, increasing unemployment and the increased utilization of some benefits, these expenditures must be constrained. With restricted resources, the most important task of social security policy is to maintain a safety net, and the most cost-effective means of doing this is through income-related benefits. Much social security expenditure is wasted on those who do not need it. If the targeting of benefits is improved it will be possible to reduce poverty and reduce public expenditure.

As a result of policies pursued by successive incremental selectivist governments, the British social security system, which Beveridge intended should leave a purely residual role for means-tested benefits, has once again become predominantly (and uniquely in Europe) a means-tested system. In 1948 there were no more than 2 million people dependent on means-tested benefits – now there are 12 million (Deacon and Bradshaw 1984).

The most recent stage in the seemingly inexorable advance of the incremental selectivist has been the Fowler Reviews of social security. Mr. Norman Fowler, the present Secretary of State for Social Services, claimed that his review represents "the most fundamental examination of our social security system since the Second World War" (DHSS 1985). In reality it turned out to be little more than a further incremental stage in the reliance on means testing. The earnings-related pension scheme is to be phased out and private pensions given further encouragement. Supplementary benefits will be reformed to equip them better for their mass role. Savings will be made in the housing benefit and, together with an enhanced means-tested family credit to take the place of family income supplement, will be rationalized (DHSS 1985).

Critics of the incremental selectivists argue that means-tested benefits do not work. Substantial numbers of people do not claim them. Indeed the fact that 1.9 million families are living on incomes below SB level is largely because means-tested benefits have not been claimed. Furthermore, means-tested benefits create nasty incentive problems – in particular the poverty plateau where, as income rises, the combined effect of benefit losses and increased tax payments results in net losses. The Fowler reforms will reduce the intensity but not the extensiveness of this problem. Means tests are expensive to administer, they are inevitably complex, and there is a limit to how much they can be simplified if they are to be responsive to individual need. Furthermore, means tests are divisive; they involve large numbers of people in repeated declarations of their financial circumstances and obtrusive investigation of their personal lives. They are a mechanism of control and can be an instrument to enforce conformity with dominant economic and social values.

Finally, critics argue, apart from the defects of means tests the incremental selectivists are not prepared to tackle the inequalities that underwrite poverty. The government's proposals for reform merely redistribute the existing cake from those with incomes just above poverty level to the poor. They do not touch wealth, the incomes of the rich or the hidden welfare state of tax expenditures and employment perks.

The incremental universalist school

This school is represented by the Child Poverty Action Group, the National Consumer Council and such Labour-inclined academics as Professor A.B. Atkinson. Their ideas are in the process of emerging as the manifesto of the Labour Party. The objective of this strategy is to make incremental changes to the existing system to reduce the role of the means test. Thus families would be floated off family income supplement and the housing benefit by an increase in the child benefit (possibly as well as a minimum wage). Pensioners on supplementary benefit would be floated off by improvements in the basic pension. The state earnings-related pension scheme would be retained. For single parents a non-contributory, non-means-tested, taxable benefit would be payable, without regard to whether the parent worked. For disabled people, a non-contributory, non-means-tested benefit would be available, again regardless of whether they worked and assessed according to the degree of incapacity. In the short term, the unemployed would become entitled to the long-term rate for the supplementary benefit. A longer-term reform would be to introduce a non-means-tested unemployment benefit, payable on the basis of a tougher test of availability for work, as long as unemployment lasted. However, the main thrust of policy to relieve the poverty of the unemployed would be an economic strategy that reduced unemployment.

The major question about this strategy is where the money would come from. It certainly could not be implemented all at once and would in the end depend on growth in the economy. However, in the short term it is proposed that resources for some immediate changes would come from increasing taxation on the better-off, abolishing the ceiling on national insurance contributions, reducing unemployment and the costs of the unemployment benefit, and reforming tax expenditures. It is a fundamental view of incremental universalists that the system of tax relief and allowance – which runs parallel with the social security system but divorced from it and tends to benefit middle- and upper-income groups most – should be called into account. Thus it is proposed that the married man's tax allowance would be abolished and the savings used to fund increases in child benefits and a home responsibility or carer's benefit. Tax relief on mortgage interest payments would be frozen and limited to the standard rate taxpayer. (Abolishing this tax expenditure altogether appears to be too politically dangerous for any British political party to contemplate.) Similarly, the tax relief on contributions to private pension schemes could not be used all at once because of the impact on retirement savings, but it could be limited to the standard rates of tax and their value diminished progressively by setting cash ceilings on existing allowances.

However, even if these devices raised sufficient revenues, there remain doubts about whether a Labour government in power would be prepared to bite the many political bullets involved in this strategy. Previous Labour administrations, whatever their aspirations, have actually behaved in office much more like the incremental selectivist school.

There are also other problems with different parts of the strategy, among them the following:

1. It is wasteful. Thus, for example, increasing the child benefit for all will provide equal benefit to rich and poor alike. However, in reply it is argued that the child benefit is part of horizontal redistribution – to assist all parents in their child-rearing years; a payment to all avoids the inequities in means-tested benefit. Furthermore, the child benefit could be targeted within a universal framework by paying an enhanced rate to one-earner families (those most likely to be poor) and taxing it. (It is not worth taxing the benefit at present because the tax threshold is too low.)

2. How will paying a single-parent allowance affect marriage and the family? Will it encourage the breakup of marriages, undermine the duty of errant spouses to support their dependants and discourage the reconstitution of families? Will not couples cohabit in order to avoid losing one-parent benefits, and if cohabiting couples are to be treated as man and wife, how is it to be policed? Might the availability of the benefit also encourage a trend to single parenting and is that desirable?

   Changing patterns of family formation, divorce and reconstitution, as well as changes in the role and expectations of women, pose considerable challenges to the tax and benefit systems of all countries, and in many they are only just beginning to be discussed (Glendinning and Millar 1987). They do not emerge only in the context of a single-parent benefit; however, a proposal for such a benefit raises the issues quite sharply.

3. What impact will improvements in the unemployment benefit and (to a lesser extent) the disablement benefit have on labour

supply behaviour? One response is that it does not really matter at a time when there are so many involuntarily unemployed. Indeed it can be argued that the social security system should be playing a greater part in discouraging people from entering the labour market and enabling them to leave it or work part-time (Bradshaw 1985). Another response is that the evidence that cash benefits affect labour supply behaviour is conflicting and inconclusive. Whether justified or not, the unemployment trap and anxiety about scroungers and the work-shy have dominated political thinking about social security for decades, if not centuries. (It has also led to a vast and largely arid economic literature!) The issue is not likely to go away—certainly not before there are substantial changes in our attitudes to work and unemployment.

The big bang school

This school is occupied by proponents with a considerable variety of political views but who share a belief that the existing tax and benefit system is irredeemable by incremental change and should be swept away and replaced by a scheme that unifies taxes and benefits. During the 1960s the field was dominated by liberal economists who were advocating versions of Friedmanite negative income tax schemes (Institute of Economic Affairs 1970). A Conservative government was in the process of introducing a tax credit scheme when it was overtaken by and lost an election in 1974. Since then, neither the Conservative nor the Labour party has shown much interest in big bang changes. However the Liberal Party has devised a tax credit scheme, and the Social Democratic Party has been much influenced by the ideas of the Institute of Fiscal Studies (IFS) for an automated and selective tax/benefit scheme (Dilnot, Kay and Morris 1984). Apart from the IFS scheme the proposal that has been best worked out is the Basic Income Guarantee (BIG) Scheme (a social dividend scheme), devised by Hermione Parker (1984).

The diagnosis of the big bang strategists has something to recommend it. At present the tax and social security systems operate independently and often with conflicting objectives. Both are vastly complicated, with huge duplicated bureaucracies both collecting information and making decisions on benefits and allowances. The existing system is wasteful, inadequate, inequitable and leads to the dreadful problems of poverty and unemployment traps. Moreover, it fails to relieve poverty, undermines incentives to work and save, and churns large amounts of money around from individuals through the revenue system and back to (the same) individuals. Incremental change to either sector has not worked.

The actual character of the schemes proposed is very different. The IFS proposals sweep away all universal benefits and replace them with an entirely means-tested system. In contrast, the BIG scheme provides every family, regardless of means and whether they are working, with a basic income on which they can build. It is very difficult to assess the overall costs and benefits of the schemes – doing so would require detailed scrutiny of their effects on families of different types as well as assumptions about their behavioural effects and consequences for the economy as a whole. However, there are a number of common anxieties:

1. To quote the response of a Treasury Select Committee (1983) to the BIG proposals: "It is hard to believe that the replacement of the whole complex system of social security benefits by relatively simple categories of basic incomes ... would not result ... in losers as well as gainers..." (para. 13.29). Losers, of course, have a serious political cost.

   The existing social security system is as complicated as it is because it attempts to respond to a great diversity of need. Simple solutions to complex problems are likely to avoid losers only at very great cost or by dint of leaving certain groups out. Thus the IFS scheme does not include the unemployed and ignores the special needs of the disabled. The BIG scheme cannot incorporate a housing benefit.

2. Administrative feasibility is also a considerable anxiety. British income taxation is based on end-of-year assessment and the principle of cumulation. Social security beneficiaries' needs are too volatile to be assessed annually. The IFS scheme proposes to overcome the problems associated with the take-up of means-tested benefits through the use of automation and, in particular, plastic cards; but given the volatility of the claiming class and the repeated assessments that would be necessary, it is unlikely that plastic cards can overcome the disadvantages of means testing (Bradshaw 1986).

3. Apart from these technical objections to big bang reforms, there are grounds to be sceptical about their feasibility. They call for revolutionary changes in the structure of central government. Two vast departments with differing cultures, traditions and perceptions of their role are expected to coalesce. Even if the institutions of government could adapt to cope with an integrated tax and benefit system, it is not at all certain that our legislature could cope with the enormous body of legislation required. Social security benefits and taxation have roots deep in the social structure – they are of vital importance not only to

the living standards of a minority but also to powerful vested interests. Making fairly minor changes to the system calls for energy, effort and courage from reformers. Making the revolutionary changes of the big bang strategist might require a war-time type change in the political consciousness of Britain.

Conclusion

Without doubt, the big questions in British social policy are political – they are about what political program the electorate is prepared to vote for and whether governments in power are prepared to sustain political commitments. Economic issues are not irrelevant, but they are not the key factor. The Thatcher government has argued that Britain's economic performance can be blamed on the size of the public sector, but for some time in fact, Britain's public expenditure has been increasing more slowly than that of any country in Europe except France. Britain's social expenditure as a proportion of GDP is second to last of the nine European Community (EC) countries, and our social security expenditure as a proportion of GDP is the lowest in the EC (Cameron 1985).

The OECD has concluded that the UK is in a relatively favourable position, facing less demographic pressure than other countries, and, even with pessimistic economic developments, can afford more growth (Gillion and Hemming 1985). The question is whether that growth will be used to finance tax cuts and private consumption, other public expenditure programs, or the relief of poverty. That is a political choice. In the end the electorate will decide, and that decision will probably be only partly influenced by the parties' social programs. Nevertheless, although political attitudes in this field are difficult to interpret (Taylor-Gooby 1985), there is evidence of a very marked shift in political attitudes in favour of social spending. In May 1979, 34 per cent of the electorate were in favour of tax cuts, even if it meant reductions in government services; by the spring of 1985, only 5 per cent supported that statement. While social security as a priority for extra expenditure comes some way down the list – after health, education, help for industry and housing, a clear majority in the British Social Attitudes Survey favoured increases in expenditure on benefits and even, by a margin of two to one, favoured increases in unemployment benefits (Jowell and Witherspoon 1986).

Only time will tell what all this means for the poor.

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II

The Influence of the Political Process on Social Security Developments

Can We Reform Canada's Income Security System?

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The Apparent Failure of Canada's Income Security System

Canada, like Britain and many other western nations, emerged from World War II with a commitment to social justice. This led to the adoption of new income security, health, and social service programs reflecting the wish to share adversity and protect every citizen from the worst ravages of economic dislocation, unemployment and social disadvantage. In Canada, unlike some western countries, many of the structures of the so-called welfare state were not put in place until the late 1960s. But by the 1970s, all our major social programs, including unemployment insurance, universal health insurance, family allowances, social assistance and old age pensions, were firmly established and an entrenched part of Canadian political reality.

This program had seen the spectrum of political parties, from Conservative through Social Democratic, agree to its introduction. Yet less than two decades after its realization, the post-war consensus has become increasingly tattered. Today, while no political party in Canada can mount a direct frontal attack threatening to eliminate the social security system, there is no generally shared view about the

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This report reflects the views of the author and not necessarily those of the Manitoba government or any other organization with which the author is associated.

direction for further development of our social programs. The political consensus providing guidance over the last 40 years no longer exists.[1]

A new consensus has not yet emerged. Until it does, the absence of a common vision of social policy implies that reforms will be relatively minor in practice, although occasionally major when first proposed, and will most often be in the form of apparently illogical fits and starts. They may also be contradictory, as succeeding governments attempt to find once more the vital spring of social consensus, or as conflicting views find expression within a single governing party.[2]

If we are to escape this public policy vacuum, it will be through the emergence of a new concept of social policy to mobilize competing political forces once more in pursuit of a common goal. Such a goal may be understood only vaguely and will of course be subject to varying interpretations by those of differing political philosophies. It will nonetheless provide long-term coherence to the many small steps and the few not so small steps that make up the practice of social policy. Naturally the question then is, What will this new social policy look like?

The cornerstone of social security has been our income security programs; these programs are the subject of this paper. An analysis of the emerging criticisms of this key building block of the social security network may illuminate the breakdown of the old post-war consensus. The reasons for the fracturing of the old view may provide a basis for beginning to articulate a new social policy consensus.

There are three types of income security programs in Canada.[3] Social insurance programs such as Unemployment Insurance and the Canada Pension Plan provide payments to persons who have contributed to the plans in the past. Flat-rate demogrants provide payments 'universally' to a category of people. In Canada, these include Old Age Security, which pays a flat amount to every person over 65, and the Family Allowance, which provides a payment to every family with children that may vary with the number and age of the children. The third major type of program is those that are subject to an income, means or needs test. In Canada, this includes provincial social assistance, which is the main residual program for persons who have no other means of support. Another large income-related program is the Guaranteed Income Supplement, providing a supplement to Old Age Security for pensioners.

In addition, there are many other specific federal and provincial programs, as well as a range of important measures built into the income tax system. Altogether, benefits were worth about $61.6 billion in 1984-1985, with costs shared about 75 per cent by the federal government and 25 per cent by provincial governments. Excluding most tax exemptions, total costs for the more traditional income security programs were about $50 billion (Royal Commission 1985, vol. 2, 772).

These programs have recently been challenged on two basic but divergent points. On one hand it is asked why, given the extent of Canada's commitment through taxes and payroll deductions to this apparently thorough and large income security system, has poverty not disappeared? On the contrary, it has even worsened. According to this criticism, the failure of income security programs is their failure to eliminate poverty. This approach leads to an attempt to reform the system to address the issue of poverty more 'efficiently' by converting universal programs into selective programs, to increasing maximum benefits and, sometimes, to advocacy of some version of a guaranteed annual income.[4]

On the other hand, there are those who believe the programs we have established are contributing to the very problems they are meant to solve. For example, unemployment insurance is said to create unemployment by encouraging workers to reduce their effort and willingness to accept employment. Social assistance is said to put tremendous barriers in the way of the poor re-establishing themselves in the job market and therefore to stimulate the very poverty it is meant to prevent. This view often leads to advocacy of program reductions and cutbacks and, sometimes, to arguments for eliminating much of the income security structure developed over the last 40 years.[5]

Broadly, these are the major trends in criticism of income security programs over the last several years. The traditionalist advocates the good old approach of improving our income security programs to tackle the poverty problem. In the other camp are those who advocate a more radical break with the past; income security programs are seen as part of the problem rather than part of the solution and are therefore to be reduced or even eliminated, rather than expanded.

These two views share the belief that the current system is not working, but they diverge on what to do about it. This is the nub of the disagreement causing the current hiatus in the development of social programs and resulting in the loss of a coherent direction for reform. It would be incorrect, however, to characterize this political hiatus as merely a clash between two policy prescriptions, to be resolved by determining which prescription can muster the most rational arguments on its behalf. Nor would any alternative approach to reform triumph simply because it is the most reasonable. If this were the case, public policy would be operating within a universe of pure logic.

Whether a new consensus is possible, and what form it might take, will depend upon the social and economic realities underlying the absence of consensus today. At issue is not only the logic of the arguments but the explanations as to why these are not sufficiently persuasive in Canada today. What is it about Canadians' expectations, desires and needs in regard to their income security system that makes these arguments acceptable or otherwise? The limitations and minimum requirements that Canadians expect of their income security system will outline the basic features of a program to meet the requirements for a new consensus.

The next sections of this paper review some of the arguments advanced in favour of the traditionalist approach and then analyze the extent to which these meet the test of acceptability in Canada. This is followed by a similar discussion of the radical approach to reform. The results of these discussions are then used to outline the basis for a new consensus. Finally, the concluding section suggests a package that may provide a viable approach to reform.

Why Have We Failed to Eliminate Poverty?

The debate concerning the contrasting virtues of different ways of defining poverty is familiar to most students of social policy. In Canada, the measure of poverty most often used is the 'low-income cutoffs' developed by Statistics Canada. These are a measure of relative poverty derived from the average expenditures of Canadians on basic necessities.[6] According to this measure there has been a slight increase, rather than a decrease, in the poverty rate in Canada since the late 1970s. Whereas 15.1 per cent of Canadians were below the low-income cutoffs in 1980, 17.8 per cent were below the cutoffs in 1984. In absolute numbers, about 900,000 more people were below the low-income cutoffs in 1984 than in 1980 (National Council of Welfare 1985a, 7).

Even if the low-income cutoffs are not an acceptable definition of poverty, they remain indicative of the income trends of Canadians, so there is no reason to suspect that the direction of results would be very different with any other measure of relative poverty. The perception that poverty has failed to disappear thus appears to be substantiated by the statistics. Does this then confirm the traditionalist view of the failure of our income security system? There are three pertinent observations to be made.

First, income security programs can be judged to have failed to prevent increased poverty only if the underlying rates of poverty would have been unchanged had there been no such programs. If the position of lower-income Canadians has eroded over the last several years, then income security programs may have prevented poverty from increasing even more than it did. In Canada, this appears to be the case, at least in the early part of the 1980s. Among families, the income share of the two lowest income quintiles before transfers decreased between 1981 and 1983 from about 15.4 per cent to about 13.6 per cent. By contrast, the income share of the highest income quintile increased from 40.8 per cent to 43 per cent over the same period (National Council of Welfare 1985a, 69). Thus, for part of this decade, income security payments may have stood as a bulwark against the erosion of income and the deterioration of the position of lower-income Canadians while the distribution of market income became further skewed.

A second observation is that if income security programs have failed to eliminate poverty this may not be attributable to a failure in their design. It may simply be a result of an insufficient financial commitment to them in the first place. Stated simply, the benefits payable are often not enough to prevent poverty. This is particularly true in the case of social assistance, where benefit levels have often fallen over the last few years, rather than rising to maintain the well-being of recipients.[7] Had benefits been increased to equal the low-income cutoffs, or at least to maintain a constant relationship to them, the incidence of poverty might not have increased as much as it did.

This is substantiated by the improvement of incomes among the elderly. The level of benefits in programs for the elderly has been maintained despite the economic circumstances of the last several years, and the poverty rate among the elderly has decreased. This no doubt reflects the success (rather than the failure) of the Guaranteed Income Supplement and the Old Age Security system. For the elderly, the income security system has been effective in reducing poverty.

Finally, it may be irrelevant to judge income security programs a failure because they have been unsuccessful in reducing poverty. Most of the income security system has not been designed to reduce poverty but has quite different purposes. Social insurance programs, such as unemployment insurance, were developed to address the problem of discontinuity in income rather than poverty. They were meant to provide protection against a disruption in income. Thus benefits are designed typically to be most responsive not to the needs of the very poor but to those of middle- or lower-middle-income Canadians who already have an income.

As well, demogrants may address problems of 'horizontal' equity rather than 'vertical' equity, meaning fair treatment for families of equal income rather than redistribution of income from those at the upper end of the income scale to those at the lower end. To this extent, most of the income security system is not aimed at addressing the problems of the very poor. It may be unreasonable to charge the system with having failed to achieve a goal that was never established as its objective.

These observations show that if the income security system has failed to eliminate poverty it is because there is insufficient commitment to it, it has not been designed to eliminate poverty, and today's economic circumstances have conspired to reduce its effectiveness. This is a failure of the political will to 'improve' these programs. If the elimination of poverty is our main concern, we must therefore go beyond the mere statistical observation of poverty remaining or increasing in Canada to gain insight into the social dynamics that have brought about this result. There is no use building a better mousetrap if no one is willing to use it.

The Outer Limits of Income Security Reform

An illustration of the economic and political forces at work in income security reform can be provided by reviewing a historical case. In Canada, the province of Quebec underwent a radical upheaval, beginning in the late 1950s and early 1960s and known as the Quiet Revolution. The previously ultra-conservative province suddenly burst forth, determined to create a modern, secular, forward-looking Quebec. With remarkable enthusiasm and energy the Quebec intelligensia undertook to draw up blueprints for all aspects of their new, rational society. A key aspect of this redesigned society would have to be a logical and effective social security system, which in the 1960s, even more than today, was seen as an essential prerequisite of a modern state.

In 1971 the Quebec Commission of Inquiry on Health and Social Welfare published volume 5 of its report with a detailed design for Quebec's future social security system. The report, usually known as the Castonguay-Nepveu Report after its two chief commissioners, set out the design for a fully integrated, completely rational income security system that would eliminate poverty in Quebec, while providing fairness and work incentives for all.

In brief and incomplete outline, the Castonguay-Nepveu Report advocated a substantial family allowance payment that would provide about 40 per cent of the minimum income needed to raise a child. However, part of the high cost of the family allowance was to be recovered through a tax-back provision to recuperate some of the amount paid to higher-income families. Social assistance would provide the remaining 60 per cent of the minimum needed for each child in an eligible family.

The amount of assistance available to the adults in the family would depend on their participation in the labour force. Those who had substantial earned income would be on a lower tier, with lower maximum benefits but much greater allowances for earned income. On the other hand, those not earning substantial income would be on the upper tier, which would provide a more generous guaranteed minimum income to meet needs, but would be reduced dollar-for-dollar by any earned income (Quebec 1971, vol. 5, 19-41, 132-136). Further, social assistance would be administered in a non-stigmatizing fashion, with the expectation that many employed people would receive supplementary benefits under the plan.

The result of this plan would be that no family in Quebec would be below a minimum income and everyone working would be above the minimum income, regardless of the size of their family. Since those working would always be better off than those not working, there would always be an economic incentive to work. Moreover, the system would be fair and would be seen to be fair to all Quebecers.

Quebec set out with great determination and skill to implement its vision of the future. The main architect of the report, Claude Castonguay, became Minister of Health, Family and Social Welfare and responsible for its implementation.[8] Provincial revenue was relatively buoyant, and the Castonguay-Nepveu vision of social security in Quebec remained dominant for at least a decade. Yet despite this, it was never fully implemented, a basic minimum income was not guaranteed, fairness for all was not achieved, and the vision was finally 'officially' abandoned with the release of the White Paper on taxes and transfers in 1984 (Quebec 1984).

Quebec's inability to implement its program, despite the presence of political will, skill and revenue, is perhaps a good illustration of the limitations of the traditionalist approach, even at its very best and most rational. Students of social policy must ask whether this type of reform can ever work if it did not work in the 'ideal' conditions of Quebec in the 1970s.

What happened to the Quebec rationalist vision was the intervention of reality. As unemployment levels began to increase steadily, Quebec society could not tolerate huge numbers of able-bodied men and women collecting, without stigma, incomes close to the minimum wage. Even if recipients would have been better-off financially if they were working, Quebecers were not reconciled to the sight of thousands of healthy young citizens picking up their monthly cheques from carpeted computer-automated welfare offices.

The two-tier system was not implemented in the way originally foreseen to create a general supplementation for low-income workers, and the Family Allowance never reached the levels required. This was despite a historic compromise by Canada in 1974, substantially raising the federal Family Allowance and allowing it to be varied according to provincial design, a compromise tailored specifically to meet Quebec's needs given the Castonguay vision of income security. The tax-back arrangement originally envisioned by the Castonguay report was not implemented, despite Quebec's control of its own income tax system, thereby limiting the revenue available to increase the Family Allowance to the levels required by the original plan.

As the blueprint gradually came apart, various ad hoc measures were taken in attempts to preserve it. For example, an innovative earned income supplement – whereby those who work at or near the minimum wage get an extra payment from the province that increases, rather than decreases, as their earnings increase – was introduced in 1979. This was a way to increase work incentives, but it also minimized the need to improve the minimum wage. Most important, to reduce spiralling costs and to deal with the issue of employable people collecting welfare, benefits for single young recipients were slashed drastically.

The social boundaries that prevented the implementation of the Castonguay vision were first, and most important, that Quebec society could not tolerate large numbers of people who should be working relying upon social assistance benefits instead. Some may see this as simple human envy. Alternatively, this intolerance may reflect a deeper realization of the destructiveness of unemployment and a view that idleness should not be endorsed by society through its income security system.

The second social limit revealed concerned tax rates. While Quebecers seemed willing to pay one of the highest tax rates in Canada to support a renewed education system, a top-notch health system, and other elements of a modern progressive state, ordinary working Quebecers would not support high tax payments for programs from which they would not likely benefit.

The third limit demonstrated was that the same ordinary Quebecers understood that a tax-back on their Family Allowance, or a similar reduction in any of their existing benefits, amounted to just another way of increasing their taxes. They would not tolerate the reduction of their existing income security benefits as a means of paying for the new model system.

These same limits likely remain in force today, not just in Quebec but in the rest of Canada as well. They are 'outer limits' in that they circumscribe the widest extent to which income security reform can be pursued successfully. The answer, therefore, to the traditionalist critique of the income security system – that it is not deep enough, wide enough, or strong enough to eliminate poverty – is that this does not reflect a failure in the design of income security programs. Rather, it reflects the incompatibility of the logical extension of that design with the social expectations of Canadians. This is not a problem that can be solved by greater technical finesse.

Income Security Programs as the Cause of Poverty

In contrast to the view favouring improvement of today's social programs is the belief that these programs are actually contributing to unemployment and poverty. The fear that income security programs or their predecessors would contribute to the problems they were meant to address has been present from the earliest origins of state charity. The first attempts to establish a comprehensive income security program, the British Poor Laws of the 1830s, were designed to ensure that assistance to the poor would be so meagre and offered in circumstances so repellant that anyone would be better off to rely upon any alternative wage at all (United Kingdom 1985, vol. 3, 59).

In Canada, the modern critique along these lines was taken up in the early 1970s by economists inclined to the neo-classical model, who predicted that increases in benefits would decrease labour supply. Possible decrease in labour supply became the dominant theme in the various guaranteed income experiments in the late 1960s and early 1970s in the United States. The main objective of the single guaranteed income experiment in Canada was also to ascertain whether there would be an effect on labour supply, how this could be mitigated, and what its extent might be.[9]

Grubel, Maki and Sax (1975) attempted to measure precisely the extent to which unemployment insurance reduced labour supply. This article marked the beginning in Canada of modern academic criticism of existing programs (as opposed to possible new programs) as a cause of unemployment. Analogous negative effects were measured with respect to other aspects of income security programs as well.

The 1984 Quebec White Paper on taxes and transfers is one of the most comprehensive attempts to apply such an analysis in a practical vein. It attempts to measure the impact on labour supply of various options presented, as well as the consequent effects on unemployment and the level of production in Quebec. Using a general equilibrium model, the paper estimates the longer-term results in Quebec after a new equilibrium is attained. Because it is possible to take account of increased employment and production, resulting in positive feedback effects for the Quebec economy, a much more sophisticated calculation of the net cost of various options is presented, although their accuracy depends, of course, on the validity of the neo-classical assumptions inherent in the model (Quebec 1984).

Given this background of apparent academic credibility, the argument that income security programs were fundamentally flawed could be taken even one step further. Our neighbours in the United States took up this cause with enthusiasm. In *Losing Ground*, Charles Murray portrays unemployment insurance, food stamps, social assistance and the War on Poverty as the primary causes of poverty in the United States. In Canada, explicitly articulated extremism is more difficult to find. Yet it is fair to say that this view, having now become intellectually dominant in the United States, has also attracted a large following in Canada. This criticism of income security programs has become the dominant 'radical' approach to income security in Canada as well as the United States.

Just as the argument that income security programs have failed to eliminate poverty contains an element of truth, so too does the argument that income security programs cause poverty. The former argument seems substantiated by statistics showing continuing poverty. The latter argument appears substantiated by the various economic analyses showing unemployment and other negative manifestations increasing because of income security programs. However, the partial validity of the traditionalist critique does not imply that it is possible to implement a more extensive income security system to address the current system's failings. Similarly, the radical critique exaggerates the extent to which reducing or eliminating the income security system offers a viable solution to these problems. The radical critique may present a cogent complaint about some adverse affects of the income security system, but does it also provide a realistic, applicable program to address these complaints?

The Inner Limits of Income Security Reform

Much of the academic literature supporting the new radical approach is based on a debatable theory of the cause of unemployment. This is the theory that, in the absence of external constraints, labour markets are 'self-clearing'. That is, increasing numbers of unemployed workers will put downward pressure on wage rates, until at some rate there will be a demand for the labour; eventually, supply will equal demand and there will be full employment.

This, of course, is the classical theory that an economy is in stable equilibrium only at full employment unless there are policies in force that interfere with the unfettered operation of the economy. If this or a similar theoretical backdrop is not assumed, then increasing labour supply by decreasing income security programs will have little or no effect on the level of unemployment in society as a whole. If the demand for labour remains unaffected, so does unemployment, regardless of the effect on supply, because newly employed workers will merely displace others, who will become newly unemployed.

Thus the central question about the claim that the income security system increases unemployment—and therefore that its reduction or elimination would reduce or eliminate unemployment—is whether it is possible for an economy to establish equilibrium with less than full employment. This was the proverbial sixty-fourthousand-dollar question in economics arising from the depression of the 1930s, but it remains a fundamental factor in today's neo-classical analysis of income security programs. Keynes argued on the basis of both economic theory and historical experience that it was possible for society to attain equilibrium with less than full employment. For Keynes, downward pressure on wage rates might lead to reductions in *nominal* wages but, given constant production (which he saw as primarily a function of demand), the result would be compensating changes in *real* wages. The value of wages, in terms of their purchasing power, would adjust so as to offset the reductions in nominal wages (Keynes 1941).

Since the 1940s, macro-economic theory has become a great deal more sophisticated, with the development of models encompassing rational expectations, disequilibrium macro-models and other recent developments. Yet the simple problem remains of providing a satisfactory alternative explanation of apparently involuntary and chronic unemployment. This unemployment has seemed to be a fact of life in much of the western world for many historical periods, including the present one. Non-economists are therefore often surprised to learn that the same neo-classical analysis that suggests that increasing labour supply will result in greater employment also leads to the conclusion that long-term unemployment is voluntary, at least in the sense of being attributable to a refusal to work at lower 'market-clearing' wage rates.

A second problem with the classical approach is of an institutional rather than a theoretical nature. Keynes argued that even if nominal wages were decreased, a market-clearing real wage would not result; neo-classical economists argued it would. However, even if the classical theory is accepted, it is not at all evident that decreasing nominal wages is a practical approach in today's world. This could be achieved only by reducing minimum wages and curtailing collective bargaining and many of the other legal and institutional structures now in place to protect workers. A program posing such a goal would escalate the level of conflict in society dramatically and perhaps for this reason alone would be self-defeating.

The debate on theories of unemployment may seem arcane and outside the concern of students of social policy. Unfortunately this debate cannot be avoided. It is central to the new radical critique of income security programs, which would see a major reform effort aimed at increasing labour supply, in the expectation that the consequent increase in labour demand would result in reduced unemployment and poverty. Obviously, this approach is futile if increased labour supply has little or only a negligible effect on labour demand.

As well, the radical critique focuses only on the potential negative effects of income security; it does not look at the offsetting positive effects. Income security programs convert many of the private costs of economic adjustment to social costs, particularly through unemployment insurance and social assistance. They thereby contribute to a climate in which economic adjustment can occur more readily. Programs such as universal pensions provide a basic floor Canadians can count on, regardless of the economic circumstances they confront during their working life. In this way, income security programs play a critical role in permitting economic change to occur with less political resistance.

In Canada, tremendous political pressure is exerted to prevent economic adjustment, for example, through demands for quotas or tariffs in response to foreign competition. One can imagine how such pressures would be magnified if workers felt they would be literally starving and homeless when their jobs disappeared, rather than having the safety net of income security programs to rely on.

The arguments that the overall effects of the income security system on the economy—and especially on the use of human resources—are negative are therefore questionable. However, the very propensity of the new radical critique to approach reform in a purely economic context is itself indicative of a second fundamental problem. The new radical critique reflects the current dominance of 'economic' models in public policy and thus inherits the weaknesses of the model. The economic model sees human beings as rational maximizers of utility. By making choices based on the best knowledge obtained, and having assessed the likely 'costliness' of possibly not having needed information, they seek to increase their well-being. Without wanting to challenge the current hegemony of the economic approach, this model may be especially inappropriate with regard to at least some of the groups involved in the social security system.

What is seen as a rational choice by some, based at least in part on a lack of information or on misinformation, might be viewed by others with a better understanding of options and consequences as anything but a rational choice. When dealing with groups that are distinctively, culturally different from our own, the important question becomes one of how that group perceives its choices. The economic model cannot 'get behind' the revealed preferences of individuals as they go about apparently attempting to maximize their own utility and explain those preferences.

In "The Origins of the Underclass", American author Nicholas Lemann argues that the new radical critique disguises the real cultural reasons for the emergence of ghettos in north-eastern American cities (Lemann 1986). According to Lemann, the grinding poverty, drug-infested lifestyle, and social alienation of the new Black ghettos has its cultural roots in the degeneration of the share-cropping system in the American South. Other American Blacks emerging from a different cultural experience, although confronted with the same mix of social welfare programs, education, and other opportunities, have largely escaped poverty. The incentives or disincentives built into social policy have little effect, because basic life choices, such as whether to continue school or risk pregnancy, are made overwhelmingly in response to other factors, often without what we would consider a realistic understanding of the consequences.

In Canada, there are no doubt similar groups whose cultural reality is more important than whether social assistance has a 50 per cent tax-back rate, a 75 per cent tax-back rate, or any tax-back rate at all. The most obvious example is Native people. Another group, which is less well defined but is increasingly evident in the social services in Canada, consists of children who have suffered neglect or abuse. Many of these children grow up to lead lives at the margins of society, with high crime rates and poor employment skills.

While these and similar groups may not be the majority of social assistance recipients, they are at least an important and rapidly growing minority. For these Canadians, manipulating the variables of our income security system may add to or subtract marginally from their income, but this is largely irrelevant to their employment or ability to participate in society. The radical critique is correct in that poverty and unemployment for these groups have coexisted and expanded simultaneously with social programs. But coincidence is not causation.

Finally, it is not likely that Canadians see the income security system as merely a prop for economic objectives. Canadians may also view the system as necessary to achieve purely social goals. Put simply, regardless of whether it is good or bad for the economy, Canadians do not want to see their fellow citizens fall into complete destitution.

Whether such inclinations are altruistic, or a reflection of the fear that any one of us might one day have to rely on social programs for support, it appears that Canadians continue to expect at least a minimum social safety net.[10] Thus, both because a minimum safety net likely plays a necessary role in a modern economy and because of our national determination to support those who would otherwise be destitute, there are limits to the extent to which income security programs can be reduced.

Income security programs are the means through which society can tolerate poverty. Eliminating or substantially reducing income security programs will reduce the tolerance of society and, to say the least, that of individuals who are experiencing poverty. But this is not a realistic political agenda. It does not recognize the type of society we have developed in the last 40 years and its expressed preference for a high degree of societal sharing of risks.

Fundamental Requirements of Income Security Reform

Both the traditionalist and the radical approach present criticisms of Canada's income security system that have at least some elements of validity. The problem with these approaches is not so much the logical validity of their arguments as it is the social and economic premises on which they are based. These are in conflict with the expectations of Canadians. They suggest approaches to reform that are not commensurate with the real limitations and requirements of the income security system in Canada today.

By analyzing why the 'natural' development of the system has failed to occur since the early 1970s, some of the 'outer limits' that constrain any acceptable reform package can be outlined. The first is that Canadians expect to be usefully employed, or at least preparing for useful employment, and will not accept an income security system that is an alternative to employment for large numbers of Canadians.

A second limit is that middle-income Canadians are not prepared to accept significant reductions in their income security benefits. Many reform proposals suggest paying for improved programs for the poor by reducing benefits now going to the less poor. This would include measures such as eliminating family allowances, reducing old age pensions, substantially reducing the availability of unemployment insurance to middle-income Canadians by income testing or other means, and reforming the tax system to eliminate many of the benefits currently available to those with lower-middle or middle incomes. A reform package containing such measures would engender too strong a backlash ever to allow it to be implemented fully.

A third constraint is the tax limit, or perhaps more precisely, the tax-benefit limit. Most Canadians will not accept a large tax burden to pay for programs not likely to benefit them or their families. If a reform package concentrates on benefits only for the very poor, but at the same time requires large tax increases for those in middle-income groups, it is unlikely to mobilize support. The converse of this limit is that if tax increases are required, then the programs they support must at least be seen as potentially beneficial to middle-income Canadians.

It is also possible to describe some of the 'inner limits'—that is, necessary features that any income security system acceptable to Canadians must maintain. First, Canadians expect there to be some kind of reasonably reliable safety net to prevent utter destitution.

Few Canadians are willing to see widespread starvation and homelessness. As well, the existence of a reliable safety net is necessary to the functioning of our modern economy. Without a safety net, the process of adjustment to economic change would likely grind to a halt in the face of extraordinary political pressure to protect the economic status quo.

A further requirement is an approach to labour markets that is realistic and consistent with the institutional structures that have evolved in Canada. For example, a reform package predicated on eliminating minimum wages or substantially reducing collective bargaining rights will doubtless prove impossible to implement. In the broader view, labour supply and labour demand must be treated as largely independent variables. There is no consensus that increased labour demand will result from increased labour supply. The combination of lack of consensus on the theory, together with the need for major institutional change (including a readjustment of the power of trade unions), would make a reform package dependent on such approaches to labour markets highly impractical.

The income security reform package must also contain some recognition of the cultural and social alienation of specific groups in Canadian society. A reform package could not assume that all Canadians are knowledgeable, university-educated public servants making rational choices based on a good understanding of the consequences. Any reform package that ignores these social realities will be seen very quickly by Canadians to have failed, at least with respect to these particular groups, because behaviour will not follow the patterns prescribed by economic incentives designed for a different social reality.

Taken together, these outer and inner limits circumscribe possible reform. Unfortunately, most reform proposals violate these limits. For example, the proposals of the Royal Commission on the Economic Union (1985) emphasize benefits from income security programs rather than jobs. The Commission's proposals also require large cuts in programs aimed at middle-income groups to pay for the reformed income security package. For these reasons they are not likely politically viable. A government attempting to implement the recommendations would find itself only a few paces down the road before it met strong political opposition, requiring a series of compromises that would eventually so distort the original reform package as to make it unrecognizable. In the longer term, this would probably stall reform completely, as apparently happened with the Castonguay-Nepveu vision.

An Alternative Approach to Social Security Reform

As high levels of unemployment become an entrenched reality in Canada, the number of people who fall between the cracks of existing social insurance programs, and who are not supported by their own families, continues to grow. The result is that more and more people are thrown into reliance on residual programs, meaning social assistance, which thereby become less and less residual.[11] As well, pressure grows – and is often successful – to distort social insurance programs so that they perform primarily social assistance objectives. At the same time, growing numbers of Canadians continue to limp along on incomes from employment that are far below acceptable poverty standards, with little government assistance to support their incomes.

Perhaps the root problem of many of the income security reform packages that can be proposed – a problem that means they violate the acceptable limits and minimum requirements for our income security system – is their attempt to address the growing reliance on residual programs by redesigning the residual programs, in the hope that this will make them more acceptable. Yet this attempt may be futile. A welfare program by any other name, even the name 'guaranteed annual income', may still be recognized as a welfare program by most Canadians. An alternative is to propose programs of universal benefit that would restructure the surrounding scaffolding; as a result, fewer people would fall through the cracks and have to be dealt with through residual programs.

To take a step back to the beginnings of modern social policy, the Beveridge Report is often seen as the parent of the modern welfare state in Canada, Britain and even the United States. The original purpose of the Beveridge Report, however, was to develop a comprehensive social insurance system precisely to ensure that few people would ever be so destitute as to have to rely on 'welfare'. Instead, most needs of those with interrupted incomes were to be met through social insurance programs. The social insurance programs were to be largely self-financing through contributions (United Kingdom 1985, vol. 3, 59-70).

In the last few decades, the social insurance programs, devised largely in the late 1930s and early 1940s, have not proven able to adapt to the current reality of continuing high unemployment, extremely rapid economic change, changes in family structure, including the emergence of the single-parent family, the participation of women in the labour force, and the demographic roller coaster of the baby boom. What is therefore needed is not a new residual package, but a new set of large-scale social programs to replace the failing social insurance system while contributing to a national goal of well-paid employment for all those who want it.[12]

The following nine-point program is presented as an example of a possible alternative approach to reform of the income security system. Such proposals for reform usually involve some type of guaranteed annual income or, on the opposite side, large cuts in existing programs. This reform program focuses instead on the larger structures in society or in the social security system, with a view to making social assistance a truly residual program of last resort, even if it were to have another name.

1. *A universal retraining program.* This would be a program through which every Canadian would have an opportunity for substantial retraining at least once or twice during his or her working career.[13] This might consist, for example, of one year of earned retraining sabbatical for each 15 years of work, at some percentage of annual salary.

   This program could be implemented in any number of ways. One mechanism would be through government incentives to introduce the program as an employment benefit, perhaps by government picking up one-third of the cost, with employers and employees each sharing half of the remaining two-thirds of the cost. If the program were negotiated as an employment benefit, it could substitute at the bargaining table for increasing holiday time and decreasing hours of work and provide more efficient use of increasing leisure time in Canada.

   To the extent that the program substituted time spent in retraining for otherwise unproductive leisure time, this would offset the increased cost for the Canadian economy as a whole. At full maturity, budget costs for the program might likely be in the order of 0.7 per cent of payroll for employers and the same amount for employees, possibly matched by a similar amount from government.[14] While some of the additional costs to training establishments could be absorbed through more efficient use of existing plant and personnel, there would also be costs associated with support for the various training institutions.

   Such a program would provide an exciting opportunity for continual retraining and revitalization of the Canadian workforce, particularly as technology is causing rapid change in production techniques. At the same time, it would create many new employment opportunities, because many (though not all) of the workers on retraining programs would be replaced through temporary or permanent positions in the workforce. If about two-thirds of the workers on sabbatical were replaced, at a take-up rate equal to 3.5 per cent of the workforce, this would lower unemployment rates by about 2 to 3 percentage points.

Essentially such a program is a means of redistributing employment and at the same time having a positive effect on the quality of life and the economy of Canada. Because a program of this nature would benefit mainly middle-income Canadians, they would likely be prepared to pay the additional taxes required to finance it.

2. *Structural change in delivery systems.* In Canada, almost all income security programs are delivered centrally and directly by government. This may sometimes lead to rigidity and an inability to respond to needs specific to a given community. It may also lead to excessive attention to following defined procedures and rules, rather than finding solutions to problems. Unemployment Insurance is perhaps the best example of a program of this nature. Although regionally extended benefits and other distinctions between regions exist, these are all according to rules established in Ottawa.

   In Canada, we could consider options for a radical restructuring of the delivery system for unemployment insurance and analogous measures for other income security programs. These might include handing over the whole system to the trade union movement, as is the case in Sweden, with defined contributions and some centrally prescribed mechanism for inter-regional reallocation, but apart from that allowing maximum flexibility. Alternatively, employer and employee councils could be elected from various representative bodies. Another possibility would be regional unemployment insurance councils elected at large – similar to municipal councillors or school board members – with a national inter-regional allocation mechanism imposed.

   Any of these options, or some combination of them, would result in profound change in the operation of unemployment insurance in Canada. Rather than paying money to people for not working, new and innovative approaches could be attempted, sometimes supplemented by further local investment. While this would doubtless lead to instances of mismanagement and cases where benefits would be less than they have been in the past, as well as some regional disparity, in many other cases unemployment insurance would be turned into a new source of funds for local initiative.

   This would be particularly applicable in Atlantic Canada where local groups would want to find a better way to use the funds available. In areas such as Toronto or the prairie provinces, where unemployment insurance still operates largely as a program to smooth over temporary disruptions in income resulting from unplanned periods of unemployment, operation of the system would likely be left largely as it is today.

3. *Community opportunity organizations.* These would be municipal, small business, and citizens' groups or groups of assistance recipients who wanted to provide a co-operative, non-profit or entrepreneurial opportunity for long-term assistance recipients to pool their assistance benefits voluntarily and, with some topping up from government and private sources, create their own alternatives. For example, a business could develop a reasonable plan to provide long-term regular wage employment to 10 people through a new business. It could then be matched with 10 long-term assistance recipients who wished to take these jobs and would then be entitled to the value of these assistance recipients' benefits for some years, together with a certain percentage bonus, say 25 per cent, as a conditional grant, which would be 'repaid' through each year of employment of the assistance recipients.

   This plan could also provide working capital for groups of recipients to form their own profit or non-profit enterprises. Municipalities might also see this as an opportunity to employ assistance recipients over a longer term and, at the same time, deliver needed additional public services.

   To the extent that this would create new jobs that would not otherwise have existed, other workers would not be displaced. Initial increased government costs should be relatively small, because additional costs would be limited to the forgivable bonus grant and to administration. Over the longer term, if there is no displacement of workers and these turn out to be real new jobs that would not otherwise have been created, there might be some cost savings.

   The objective of the program would be to tap the creativity and entrepreneurship of thousands of Canadians to find employment alternatives to welfare. Most important, it would allow recipients to attempt to create their own opportunities.

4. *Child day care.* Participation rates for women are now close to 60 per cent, and about 40 per cent of women with children under three years of age are now working. The time has come for society to recognize this fact and to ensure that high-quality care is available for these children. Whether we like it or not, this is

Canada's future, and it will not be just the individual children or their families who suffer if care is inadequate.

With many of the poor being single mothers and about half of social assistance recipients being single parents, it is clear that child care is a prerequisite for any alternative to assistance. Many Canadians forget that social assistance was designed originally with the explicit philosophy that a single mother should *not* work and should instead stay home to look after her children. We should not now be surprised – or blame single mothers – that the system was designed to accomplish this goal quite effectively. If we now expect single mothers to work, as it is clear Canadians do, all policies designed under the old assumptions must be revised, not just the work incentives in social assistance, but also the 'social product' of child care, which assistance was viewed as purchasing. Society will have to provide child care for working mothers.

Models are available in provinces of high-quality, income-tested child care. These can be built upon to develop a national system of child care, if there is the will to do it. Many tens of thousands of jobs would also be created through the provision of child care.

There would be additional expense to government as a result of an expanded child care system; however, this has been much exaggerated in most discussions. In Manitoba, it is estimated that meeting all the demand for high-quality licensed day care, delivered by properly salaried professionals, would cost government approximately $50 million, compared to the $22 million now being spent. On a national scale this would require about $1500 million. This amount assumes that most costs would continue to be paid by parents, but that parent fees would be income-tested and that there would be some degree of universal subsidy for all day care spaces meeting standards. It includes sufficient funds to increase salaries to levels commensurate with that of other trained child care workers, to provide adequate equipment and training, to integrate children with special needs, and to handle other similar issues.

If about $400 million is currently spent by all levels of government on child day care, this would require an increase in government spending of approximately $1100 million. Shared equally between federal and provincial governments, this would be about $550 million for each level of government. While this is certainly a large amount of money, it is not a formidable sum. Certainly government has been able to find much more funding for other areas in the last few years when they were considered priorities.

5. *Expansion of social services*. A fifth measure, which would also be of some cost to government, would be a general expansion and improvement of social services, both to create new jobs with real social value and to provide more effective prevention of some of the social ills that contribute to future inability to play an effective part in society. This would include, for example, much greater national effort in the area of child welfare, particularly in the prevention and treatment of child abuse. It might also include greater assistance to elderly people living in the community, more services for disabled Canadians, and improved staffing in various care facilities and in community-based care.

   This measure would obviously involve costs to governments. Since capital costs would be minimal, and the supervisory structure needed is already largely in place, good jobs might be created in the social services for as little as $20,000 each. Thus, an additional investment in the social services of approximately $250 million from each level of government could create an additional 25,000 jobs, while at the same time providing a substantial benefit in terms of quality of life and, potentially, in terms of the future stability and well-being of Canada.

   Together with the expanded child care system, this would create about 60,000 additional jobs in the social services. This effort would result in real work, not make-work, and work that is of real social value, much of which would be in areas benefiting middle-income Canadians.

6. *Enforcement of maintenance orders*. As noted above, poverty is largely a phenomenon of women, and especially single parents who are women. Many of these are women who had made a mutual decision with a man to have a child or children for whom the man is no longer providing support.

   Provinces have finally begun to develop automated systems to ensure that maintenance orders issued by the courts are enforced. As automated systems are developed, there will be better links between provinces to ensure reciprocal enforcement even when a man moves from one province to another. When that occurs, the percentage of maintenance orders actually paid should increase dramatically, so that most children who should be supported through their father's payments will in fact receive the benefit of those payments.

Unfortunately, even if maintenance payments are made, they are often too low or, because they are not subject to an escalation clause, they erode substantially in value over time. As well, maintenance payments do not usually change if a man's income increases; by contrast, if the child had remained living with the father, the child would obviously have enjoyed a better standard of living. A better system for establishing the value of maintenance orders is needed to accompany the improved enforcement mechanisms now being put in place.[15]

If we as a society are to allow men and women the freedom to have children without assuming a lifelong obligation to remain together to support those children, we should also spell out clearly the rules and obligations those men and women undertake in doing so. The previous social conventions are no longer operative. They must be replaced by new social conventions that will effectively oblige all men to support their children, regardless of marital status. A first step in this direction is to encode and enforce such obligation in law. This will substantially reduce the need for social assistance.

7. *Comprehensive disability insurance.* At present disability benefits are available to some Canadians from a number of public and private sources. They are almost always inadequate, however, and are rarely available to those who are congenitally disabled.

The provinces and the federal government have been involved for four years in studies of a more comprehensive disability insurance system for Canada. This would consist largely of filling the gaps or adding slightly to such existing measures as automobile insurance, workers' compensation, existing long-term disability plans in many workplaces, and the Canada and Quebec Pension Plan disability benefits. Such a system would reduce the number of disabled people who are forced to rely on traditional social assistance for income.

A comprehensive disability plan to replace lost earnings, to be delivered by either the public or the private sector, could be put in place for an incremental cost of about 1 per cent to 1.5 per cent of payroll. Even if this were added to contributions to a universal retraining program, total payroll taxes in Canada would still be far below the level in many other western countries. In addition, another $800 million would be required to provide a guaranteed income plan for severely disabled people to replace social assistance. Again, these measures would provide more security and benefits to middle-income groups, as well as relieving some of the poor of the need to rely on traditional social assistance.

8. *Residual social assistance only*. With the programs and measures already described, the number of persons requiring traditional social assistance should be reduced substantially. Social assistance would revert effectively to the residual program it was originally intended to be. As well, unemployment insurance would shrink substantially, if for no other reason than the reduced number of unemployed people following the effects of employment redistribution.

   With social assistance only a residual program, its design features are of much less importance. It should be possible, however, to return at least to pre-recession days, when benefits were not reduced drastically for people judged employable, because these reductions were largely a response to increasing caseloads.

9. *Guarantee of a job or training*. Given the small size of the residual social assistance program and the larger number of jobs available through the various measures outlined above, it would be possible to guarantee a real job at full wages or relevant and valuable training for every social assistance recipient who wanted it. Access to guaranteed jobs or training would, of course, have to be well defined, just as access to the funds available to community opportunity organizations would be conditional.[16]

   It should not be necessary, and would be undesirable from a civil rights perspective, to require the acceptance of a job or training as a fundamental condition of receiving social assistance benefits. The experience of most people involved in social administration is that, with few exceptions, most social assistance recipients are extremely anxious to accept any good opportunity for training or a job, even where this might mean a temporary decrease in income.[17]

   The extent of the unwillingness to accept decent work or training has never been subject to experimentation in Canada, because there have never been enough jobs or training of a real and valuable nature to go around. The question of compulsory requirements could therefore wait until it is known whether this is a real problem or an imagined one.

   If 10 per cent to 15 per cent of social assistance recipients stubbornly refused to accept employment or training, despite repeated attempts and the demonstrated value of these opportunities, society may wish to accept this as just one more small cost of a democratic society in which individual liberty is respected. Such behaviour might also be viewed as symptomatic of extreme antisocial attitudes, which might make keeping a job difficult in any event.

The nine points just presented should be seen as a point of departure rather than a destination. While there are significant increased costs, there are also increased benefits. Table 1 is broadly indicative of how the costs of the various components might work out. This is by no means a rigorously calculated set of estimates and should be seen only as a crude first guess. Nevertheless, the estimates show that a package can be designed in which the high-cost programs could be largely self-financed through payroll deductions. These might be welcomed, because many workers and employers would wish to have access to programs such as a comprehensive disability or retraining plan.

Increased direct costs to government might be significantly offset by savings in social assistance and unemployment insurance. Of course, redistributing jobs by buying additional non-employment time for training would also result in a redistribution of income – but the losers would also gain through training opportunities at a substantial portion of their salary and other benefits, mainly in the form of increased security. Equally important, the program could provide overall benefits for the Canadian economy. Ordinary Canadians could be made better off through the purchase of useful leisure time and increased security, while at the same time the poor would be assisted through increased employment and better social services.

This program is not advocated as a definitive response. There may be other better ideas that should be added to the nine-point program, and there may be unrecognized problems with various parts of the program. The objective of presenting the program here is to divert the debate on income security reform from its obsession with whether a guaranteed income plan should have a guarantee level of $2000 or $3000 or a tax-back rate of 50 per cent or 33 per cent, or whether we should reduce unemployment insurance benefits or income test old age security as a means of providing additional funding for other programs. The current debate can provide no ground for a new consensus on the direction of social security reform, because the directions in which it takes the income security system do not meet basic needs and realities as viewed by many Canadians.

This program aims instead to make social assistance a non-issue by developing a package that concentrates on jobs and training, with significant and substantial benefits to everyone in society and the capacity to invigorate the Canadian economy as a whole. It has as its goal the full participation in Canadian society of all Canadians. The nine-point program may fall short of the mark, but this direction and

Table 1
Illustrative Rough Estimates of Incremental Cost of Reform Package

Program	Total Cost At Maturity	Non-payroll Govt. Cost or Saving	Comment
1. Universal retraining	2% of payroll	$2.0 billion	could be phased in on a voluntary basis over time.
2. Delivery structure change	nil	nil	change in delivery and budgeting system only.
3. Community opportunity organizations	minimal	$100-$200 million	depends on take-up rates experienced. May be longer-term savings.
4. Child day care	$1.5 billion (govt. cost)	$1.1 billion (incremental)	with income tested fees providing the major source of funds.
5. Expansion of social services	$500 million	$500 million	may also offset some institutional costs.
6. Maintenance orders	nil	($500 million)?	will result in savings of social assistance costs, precise amount cannot be estimated.
7. Comprehensive disability insurance	1%-1.5% of payroll, plus $800 million	$800 million	could be delivered through private or public sector.
8. Residual social assistance and reduce U.I.	---	($5 billion)?	perhaps $2.5 billion saving in each program, although precise amount not possible to estimate.
9. Guarantee of job or training	---	$1 billion	assumes 100,000 participants annually at an incremental cost of $10,000 each.

this goal can provide the basis for a new consensus that would rally the support of a significant majority of Canadians for a consistent direction in the reform of our social security system.

Notes

1. This view is shared by the Royal Commission on the Economic Union, 1985, Vol. 2, p. 577.

2. A good Canadian example of this is the current federal government's policy on universality. So far it has consisted, among other things, of a policy paper stating there would be no reductions in universal old age benefits, the introduction of such cuts in a budget, and the subsequent cancellation of the cuts.

3. For a good general description of Canada's overall income security system, see Canada (1985), *Inventory of Income Security Programs in Canada*.

4. This is broadly the approach taken by the Royal Commission on the Economic Union and Development Prospects for Canada (1985). This approach is also often taken by advocacy groups, particularly those representing primarily the poor, such as the National Anti-Poverty Organization.

5. This is the approach taken by the many neo-conservative U.S. critics of social security, such as the popular writer Charles Murray in *Losing Ground* (1984). It is less often voiced as a cohesive philosophy by Canadians, although the Fraser Institute and others have articulated bits and pieces of such an approach.

6. See National Council of Welfare (1985b), *1985 Poverty Lines*, for a discussion of the low-income cutoffs and their use as a poverty measure.

7. For example, several provinces have introduced new, much lower rate structures for young, single persons.

8. While Volume 5 on Income Security was published only in 1971, its outlines were known well before then. Castonguay was appointed minister in 1970, before the publication, but he was not the only person from the Commission to assume a key role in the provincial government; other participants became Deputy Minister of Health, Deputy Minister of Financial Institutions,

and Special Adviser to the Minister on social policies, and assumed other senior appointments.

9. The single Canadian experiment was the Manitoba Basic Annual Income Experiment (Mincome). This project was halted before research on the labour supply effect was completed. However, the data are available to researchers, and a number of interesting papers have been published based on the data. See *Mincome Manitoba Research – Past and Present*, prepared by the Institute for Social and Economic Research, University of Manitoba, 1986, for a list of these publications, as well as papers in preparation.

10. See the discussion of public attitudes in the Royal Commission on the Economic Union (1985) Vol. 2, pp. 578-581, summarizing their research on public attitudes. Canadians appear tough-minded with respect to those they see as malingering, but generous to those who are viewed as having no other choice.

11. From March 1983 to March 1985 social assistance caseloads increased in all provinces except Prince Edward Island, despite this being a period of growth in the overall economy (see Canada, 1985).

12. See Novick (1986) for an eloquent argument in favour of a similar approach to reform of social security.

13. This program is similar in some respects to the Transitional Adjustment Assistance Program (TAAP) proposed by the Royal Commission on the Economic Union, in that both are aimed at providing significant retraining opportunities to large numbers of Canadians once or twice in their working lives. TAAP, however, is an extremely selective program, with benefits aimed specifically at dislocated workers. The universal training program suggested here is much broader and would be attractive to all Canadians. Dislocated workers could be a small subset of this larger program.

14. Assuming that 3.5 per cent of workers are on sabbatical at any one time – a take-up rate of about 50 per cent of entitlement – at a pay rate of 70 per cent of regular wages, this would equal 2.45 per cent of total payroll. This would likely be reduced to about 2 per cent with a maximum on replacement rates of up to twice

average income. This results in cost at maturity of about 0.7 per cent of payroll for each of employers, employees and government.

15. See Manitoba Advisory Council on the Status of Women (1985) for a review of the economic conditions of women and children in Manitoba who *are* receiving maintenance payments fixed under one of the most progressive family law systems in Canada. This report shows that the result of divorce is often to leave these women and children in poverty, despite such progressive legislation.

16. This approach is similar to that of Kesselman (1985) in its focus on jobs and its proposed guarantee of jobs or training. It differs from Kesselman, however, in proposing this as a voluntary measure in the context of a universal retraining program and other measures to redistribute employment.

17. Some evidence for this can be seen in the very high turnover rates for social assistance. The Interprovincial Task Force on Administration of Social Security estimated national average turnover rates of almost 6 per cent a month in 1979. In Drolet and Lanctot (1984), it is estimated that in Quebec, the average duration on benefits is 32 months, but only 0.7 per cent of recipients are enrolled longer than this, and only 21 per cent are enrolled between 20 months and 44 months.

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Visions of the Welfare State

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The evolution of social policy in Canada, as in other nations, has been powerfully shaped by a succession of visions of the welfare state. Social policy making inevitably proceeds within a broad conceptual framework that defines the critical problems facing society, the goals that should guide government action, and the range of relevant policy alternatives. These underlying assumptions about the domain of social policy need not always be comprehensive, internally consistent or explicitly elaborated. Nonetheless, they are critical; decision making is inevitably guided by a general conception of the social role of the state.

Major shifts in these prevailing ideas about social policy are critical to the subsequent direction of policy change. Obviously ideational or ideological factors are not the only source of changes in public policy; underlying economic and social forces also leave clear imprints on the structure of programs in this sector. However the brute facts of economic and social life must be interpreted and defined as policy concerns, and substantive policy responses must be imagined before they can be implemented. Any comprehensive understanding of the evolution of the welfare state must incorporate the changing

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These reflections represent an elaboration of comments made at the Canada/UK Colloquium on the paper by Michael Mendelson, "Can We Reform Canada's Income Security System?".

definitions of problems and alternatives that have guided social action.

A focus on the prevailing ideas about social policy is particularly useful in the contemporary context, as there are signs that Canada is entering a period in which the dominant vision of the welfare state is shifting, even among champions of the expansion of social policy. In order to explore the potential importance of such changes, this paper initially surveys the successive conceptions of the role of the welfare state that have informed debate in this country in the post-war era: the conception of a universal welfare state that prevailed in the 1940s and 1950s and the image of a redistributive welfare state that increasingly made ground during the 1960s and 1970s. The paper then turns to the contemporary period, searching for signs of change in the balance between these two visions of welfare, especially among advocates of expanding social programs in Canada.

The Universal Welfare State

The original conception of the welfare state, which guided social activism during the middle decades of this century, was a vision of a set of universal social programs that would protect all citizens from the insecurities inherent in an industrial economy and, more generally, assist them in participating effectively in a modern society. This structure would involve major social services, especially in the fields of health and education, and income security programs such as pensions, unemployment insurance, workers' compensation, family allowances, and disability and sickness benefits.[1]

As with all conceptions of social policy, this vision of the welfare state privileged certain values or social goals. First among these values was security. The development of the welfare state in the immediate post-war decades was fundamentally rooted in a quest for security in an insecure world. The touchstone for those who thought about the welfare state at that time was the experience of the 1930s, with its massive dislocation and widespread social deprivation. The aim was to develop a welfare system that could provide greater security in the lives of citizens by protecting them from the risks inherent in modern life – unemployment, disability, poverty, old age, and illness.

If one goes back to the great wartime documents – the blueprints drawn up by Beveridge in the United Kingdom, by Marsh in Canada, and by comparable Americans – the emphasis is clearly on security. The Marsh report summed up the case for the welfare state in 1943 in the following terms:

> The general sense of security which would result from . . . these various types of protection would provide a better life for the great mass of people. Knowledge that these programmes are in operation would give a sense of security to all who are protected, a sense of security which is the most potent antidote to fears and worry over the uncertainty of the time.[2]

This emphasis on widespread security led naturally to an emphasis on universality in social programs. In the first place, the social risks and needs being addressed were seen as confronting virtually all citizens, not just some small minority called the poor. In the second place, concern for real security pointed to the need for guaranteed protection, rather than the conditional forms of protection that prevailed during the depression, when assistance depended on the goodwill of relief officers who were armed with considerable discretion. The centrality of universal programs in this conception of the welfare state was thus a response to the drive for mass security, for predictability and for social rights.

Social insurance and demogrants were therefore to be the primary policy instruments. Social insurance was thought to convey a right to support, in light of the contributions. Individuals would not have to feel guilty in accepting benefits, and governments should feel more restrained in tampering with the programs. As Franklin Roosevelt said of the social security system in the United States: "We put those payroll contributions there so as to give the contributors a legal, moral and political right to collect their pensions and employment benefits. With those taxes in there, no damn politician can ever scrap my social security program."[3] Demogrants were thought to imply a similar guarantee. The actual choice between insurance and demogrants generated great debate, particularly on the political left, but both were seen primarily as instruments of security in an uncertain world.

Of course, the guarantees underlying these programs were fundamentally political, not contractual. As with any political guarantee, they are not iron-clad; governments can and do restrict the benefits that flow from universal programs in various ways and at various times. But the real question is whether universal benefits and services are more secure politically than selective ones, and here the answer is clearly in the affirmative. In the apt language of one British social policy activist, universal programs are protected by the "sharp elbows" of the middle class.[4]

The experiences of the 1980s provide ample evidence of this political protection. In the case of the United States, for example, compare the impact of the early Reagan budgets on Social Security with their impact on Aid to Families with Dependent Children, food stamps, and other selective programs.[5] In the Canadian case, compare the relative public indifference to restrictions in social assistance benefits in recent years with the massive public outcry that forced the federal government to withdraw its proposal for partial de-indexation of Old Age Security in 1985.[6]

The government's success in partially de-indexing the Family Allowance is a reminder that the political guarantees implicit in universality are never absolute. Nevertheless, it is also salutary to remember the fate of the 1971 proposal for a Family Income Security Plan (FISP), which would have replaced the Family Allowance with an income-tested benefit. The intense feelings of many middle-class women, who would have lost their benefit, haunted the Liberal government through the 1972 election and led to a sharp reversal immediately thereafter: FISP was abandoned, the universal program was retained, and its benefits were tripled in value, although at least some of the original redistributive intent was saved by making them taxable.

This superior political security is one of the reasons why organized labour and the political left, including the Co-operative Commonwealth Federation and the New Democratic Party, have long supported universal programs, despite the fact that universality weakens the redistributive impact of the welfare state. This historic preference speaks volumes about the centrality of the goal of security in the development of modern social policy.

The second goal privileged by the original conception of the welfare state was social integration or social cohesion. Every society is divided in one way or another, and social programs can be seen as an instrument for moderating the intensity of social divisions. The precise nature of this integrative role has differed from country to country, however, as the contrast between Britain and Canada illustrates. For some leading commentators on the British welfare state, its *primary* role was to help erode the class distinctions that characterized their nation. The aim of universal programs was to create common services for all – to create, in effect, spheres of shared experience that would moderate the distinctions of class and status that otherwise permeated the entire society. For Richard Titmuss, the leading student in social policy in Britain in the post-war generation, the development of the welfare state was fundamentally about community. In his words, "the fundamental and dominating historical processes which led to these major changes in social policy were connected with the demand for one society; for non-discriminatory services for all without distinction of class, income or race; . . . for services that would manifestly encourage social integration."[7] For Titmuss, the welfare state represented an attempt to entrench the sense of social solidarity that had emerged in wartime Britain.

Others have argued likewise. T.H. Marshall, for example, argued that the welfare state was more about equality of status than equality of income.[8] And in many ways the Marxist critique of the welfare state as an instrument of legitimation has also focused on this integrative capacity of social policy, an integration they regard as fundamentally fraudulent.[9]

In Canada, this integrative role takes on a different dimension. Canadian politics revolves less around class divisions than regional and linguistic ones, and social integration in this country has tended to mean building common bonds among various territorial units, language groups and regional cultures. Universal social programs are important in this context. They represent one of the few spheres of shared experience for Canadians, an important aspect of our lives that is common, irrespective of language or region. Moreover, the expansion of the federal role in the social security system in the post-war era has turned the welfare state into a powerful instrument for redistributing income and life chances among the different regions of the country.[10]

Canada is not alone in this, of course. Indeed, Gunnar Myrdal argued 30 years ago that the development of social security and the expansion of the income tax system were "two mighty policy trends which have forcefully contributed to equalization between regions" in all western nations.[11] Such programs have little to do with regional policy per se. But, in the words of one British commentator on regionalism, the welfare state "is the submerged but massive part of the iceberg of state interventions" that favour poor regions.[12] Given the greater political sensitivity of regional divisions in Canada, however, this integrative role of the welfare state takes on much greater significance than it does in less territorially divided polities. The discourse of nation building creeps into even the most mundane corners of Canadian social policy, especially during periods of constitutional crisis in the wider federation. In 1981, for example, an internal bureaucratic task force on the Canada Assistance Plan described the *first* rationale for such a program as the desire of the federal government "to ensure that all Canadians share in the benefits and obligations of common nationhood. . . . and through these programs strengthen their identification with Canada as a nation."[13]

Security and social integration were thus deeply intertwined in the universal conception of the welfare state.

The Redistributive Welfare State

Much confusion surrounds the discussion of the welfare state and redistribution, especially redistribution between rich and poor. There is a widespread assumption in current debate that the expansion of the welfare state in the mid-twentieth century was intended to carry out a redistributive purpose, by narrowing the inequalities of modern society. In fact, the creation of the welfare state represented a shift away from redistribution as the primary goal of social policy.

Whatever else one might say about the social programs of the early years of this century, such as local relief, they were clearly redistributive programs. They were selective programs, with means-tested benefits that were financed from general revenues. The dominant theme in the history of Canadian social policy was essentially a flight from this kind of selectivity, which was accomplished by removing first one group and then another from local relief in order to create a more secure form of social protection for them. In some cases the first step was simply to create a more humane means-tested program, as in the case of mothers' allowances after 1916, the old age pensions of 1927, and the pensions for the blind that came in 1936. But from the 1940s on, the process involved the establishment of universal programs for specific groups, such as the elderly or the unemployed, or for selective purposes, such as health insurance.

In a sense, then, the advent of the welfare state represented a move away from redistribution, at least in the vertical sense. Redistribution was to be from the employed to the unemployed, from the healthy to the sick, from the non-aged to the aged, and so on. Many of the founders of the welfare state probably thought that as a secondary consequence there would be an important narrowing of the general pattern of income inequality, but that was not their primary aim. Universal programs were to redistribute security more than income.

In addition, to the extent that redistributive goals were critical in the debates surrounding the creation of the modern welfare state, they focused on *horizontal* equity rather than vertical equity. Family allowances, which were introduced in 1944, as well as the earlier tax exemptions for spouses and children, were designed to ensure greater equity, at *each* level of income, between those with and those without family responsibilities. The importance given to these programs undoubtedly reflected a widespread cultural emphasis on the family as a social institution in that particular era.[14]

The dominance of this universal conception of the welfare state was increasingly challenged in the 1960s and 1970s, however, as a much stronger emphasis on vertical redistribution emerged. The goal of a more redistributive system of social security never fully displaced concerns about security and integration, but the balance in the prevailing mode of thinking clearly shifted. The dominant conception of the key problems facing social policy makers, the goals that should guide policy reform, and the criteria by which policy instruments should be evaluated all changed. In this sense, it is possible to speak of the emergence of a vision of a redistributive welfare state.

Once again, this redefinition of the purposes of the welfare state was not limited to Canada. One commentator on American social policy observed in the late 1970s that

> . . . the redistributionist premise has made considerable headway among those directly involved in the discussion and formulation of public policy. Increasing attention is being paid to the distributional consequences of government policies and programs; there is a growing sense that the distribution of income is a proper political concern; and there is a marked tendency to view specific public policies as justified only if – whatever their other effects – they contribute to (or at least do not work against) a narrowing of income inequalities.[15]

The roots of this shift are complex. In part, it was related to the affluence of the period and the easing, for much of the population, of the general sense of economic insecurity that had been the driving force in the 1940s and 1950s. In part, the change reflected changing concepts about the family. The claims of horizontal equity seemed less compelling in the 1960s and 1970s than they had earlier, and this was undoubtedly the surface manifestation of rather important cultural changes in our attitudes towards the traditional family as an institution. But most obviously, the change reflected the re-emergence of poverty as a political issue. Evidence was accumulating that the poor were not the major beneficiaries of many universal programs, that many poor – especially the working poor – were ignored altogether, and that the gap between rich and poor was not narrowing.

With the growing emphasis on vertical redistribution came a chorus of criticisms of the social policies inherited from the previous generation. It became commonplace on the political left to argue that the welfare state had failed because the distribution of income has remained so frustratingly stable over the post-war period and because poverty had not been eliminated. Indeed, for the radical left, the welfare state looked less and less like an instrument of real reform, and more and more like a means of legitimating a non-egalitarian social order. Similarly, it became commonplace on the political right to argue that universal programs are wasteful because they are not targeted to those most in need.

These developing critiques set off a vigorous debate about how social programs could be made more redistributive. After an initial enthusiasm for the role of education and other social services in anti-poverty programs in the 1960s, most notably during the War on Poverty in the United States, the reform debate centred increasingly on income transfer mechanisms. In addition, the definition of the social policy sector was broadened to incorporate a wider range of policy instruments, including most importantly the tax system. Proposals to restructure income security programs and to integrate the tax and transfer systems into a coherent redistributive mechanism emerged from every quarter. The most ambitious blueprints for reform revolved around the idea of a guaranteed annual income, which in some versions was to be delivered through the tax system in the form of a negative income tax.

The enthusiasm for a guaranteed annual income in many ways symbolizes the intellectual assumptions of this vision of the welfare state. In its most radical form, as advanced by its early advocates such as Milton Friedman, the guaranteed annual income was premised on the key assumption that the elimination of poverty was the *only* appropriate goal for social policy, and that universal programs were therefore fundamentally flawed as policy instruments. Some form of income-tested transfer system should therefore replace existing income security programs, and perhaps even some public services.[16]

In the real world of political life, the radicalism of the original idea of a guaranteed annual income was rapidly diluted, and serious attention was restricted to more limited restructuring of the tax and transfer system. Formal proposals, which were often dubbed guaranteed income schemes, were advanced by the governments of the United States, the United Kingdom and Canada, all within a few years of each other in the early 1970s. In each case, the proposals failed.[17] Nevertheless, the emphasis on redistribution did generate a wider range of incremental adjustments in welfare programs. In the Canadian case, a variety of tax credits and income-tested supplements were added to the existing structure. At the federal level, for example, the Guaranteed Income Supplement and the Spouse's Allowance now form an additional tier in the system of universal old age pensions. As well, family benefits programs have been recast. The child tax exemption and, to a lesser extent, universal family allowances have fallen from grace, victims of the triumph of the growing emphasis on vertical equity over the traditional concern for horizontal equity. On several occasions, resources carved out of these programs have been transferred to the new Child Tax Credit, a refundable tax credit payable to lower-income families. In many ways, the evolution of the family benefits system is the most sensitive indicator of the pervasiveness of redistributive assumptions in recent years.

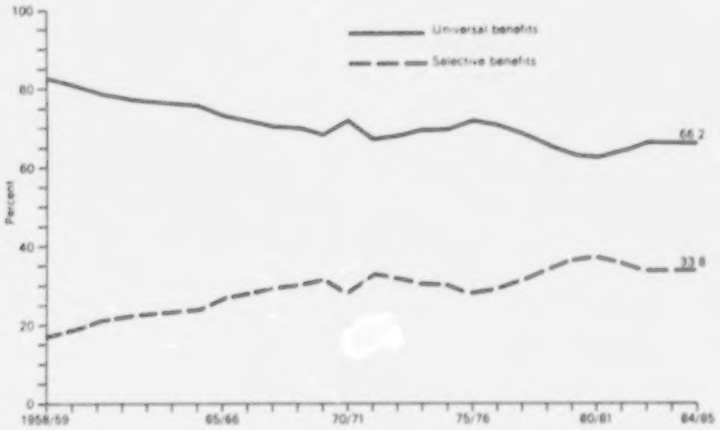
None of these changes radically altered the basic structure of the welfare state in Canada. However, the cumulative importance of successive small initiatives in this direction during the 1960s and 1970s is highlighted in Figure 1, which tracks the balance between universal and selective benefits from 1958-1959 to 1984-1985. In this analysis, the category of universal benefits represents total payments made under Family Allowance, Old Age Security, the Canada and Quebec Pension Plans, Unemployment Insurance, Worker's Compensation and Veterans' Pensions. Selective benefits, on the other side, are the Child Tax Credit, the Guaranteed Income Supplement, Spouse's Allowance, provincial social assistance, various provincial tax credits, veterans' allowances, and federal social assistance for registered Indians. As can be seen, the proportion of income security spending by all levels of government that flows through selective programs rose from 17.2 per cent in 1958-1959 to 37.5 per cent in 1980-1981, before settling down to 33.8 per cent in 1984-1985. Clearly the addition of more selective elements during the last two decades has altered the overall pattern of income security in Canada in a noticeable way.

The Contemporary Trend

Peering into the present is never easy. The flux of contemporary events tends to confound the transitory and the fundamental, making it difficult to identify emergent trends until they have virtually run their course. Nevertheless, it takes no great wit to see that the debate over the welfare state has changed dramatically in the 1980s. Most attention has focused on the obvious resurgence of a neo-conservative critique of the structures of modern social policy and the wide range of reform proposals associated with that perspective. Much less attention has been paid, however, to the evolution in thinking among *defenders* of the social role of the state, who accept the existing framework of social programs and advocate a new phase of expansion. There are signs of important changes here as well, including a possible fading of the redistributionist ethos and an edging back towards the original conception of the universal welfare state.

Michael Mendelson's paper, "Can We Reform Canada's Income Security System?", which appears elsewhere in this volume, provides a clear example of such an orientation. Mendelson argues, in effect, that the search for a more redistributive welfare state has proven to be an historical blind alley. Middle-income voters, he insists, will always resist reforms that hurt their interests. They are not prepared to accept significant reductions in their income security benefits,

Figure 1
Universal and Selective Benefits as a Proportion of All Income Security Spending by All Levels of Government 1958-1959 to 1984-1985



Source: National Council of Welfare.

thereby condemning reform proposals that suggest financing improved programs for the poor by reducing benefits received by the non-poor. Nor will middle-income taxpayers accept significant tax increases for programs that do not benefit them or their families. "If a reform package concentrates on benefits only for the very poor, but at the same time requires large income tax increases for those in middle-income groups, it is unlikely to mobilize support."[18] In effect, Mendelson is arguing that the vision of a more powerfully redistributive welfare state is not a politically creative conception of social policy.

Mendelson calls for "a new conception of social policy", but his proposals essentially represent a call for a return to the original conception of the welfare state – the universalist conception of Beveridge and Marsh. His own proposals would involve a significant strengthening of the framework of universal social programs, with a shift in emphasis from income transfers to the services side of the welfare state. The political virtue of this vision of the future, in Mendelson's view, is that middle-income earners would be the primary beneficiaries of such programs and would willingly support their costs. This restatement of the earlier conception has certainly been updated to address the concerns of the 1980s. The emphasis is on retraining programs, child day care, employment creation through expansion of social services and changes in delivery mechanisms for income security programs, and comprehensive disability insurance. But the underlying assumptions resemble those of the early champions of the welfare state. Social policy reform should enhance the lives of citizens generally, and major innovations are desirable even if they do not benefit the poor in an obvious and direct way.[19]

This call for a shift in the priorities in social policy reform is certainly compatible with a number of important currents in the 1980s. The broad orientation of the women's movement provides one example. The growth of the women's movement has created a powerful political constituency with a commitment to social intervention in many forms; in an era in which many other political champions of the welfare state, such as organized labour, are on the defensive, the women's movement has emerged as one of the political bulwarks of the social role of the state. Nevertheless, the growing weight of this constituency brings a stronger universalist orientation to the politics of social policy. The feminist agenda focuses on broad programs and services that support the needs of women at all income levels. Universal child day care, affirmative action, employment equity, improved pension provisions and other initiatives are instruments for redressing sex-based inequality at all levels of society. While women's organizations certainly support policies to help poor women, especially single mothers and elderly women, the feminist agenda spreads well beyond the dynamics of vertical redistribution. Indeed, for the most part, that agenda represents the politics of horizontal equity in its modern form.

Moreover, a re-emphasis on universal support systems is clearly congruent with public attitudes and concerns in the 1980s. The original conception of the welfare state was fundamentally a response to the mass insecurity of the depression generation. The economic traumas of the last 10 years – inflation, recession, soaring unemployment and interest rates – have reawakened a sense of economic insecurity and anxiety for a large portion of the population. Richard Johnston's survey of data on public attitudes in the early 1980s found Canadians "deeply preoccupied with job and income security" and fearful of economic changes such as those wrought by technological innovation.[20]

The economic behaviour of Canadians since then confirms the tenacity of this collective anxiety. Job security has emerged as the central issue in collective bargaining, and homeowners are paying down their mortgages at record rates. This economic nervousness reinforces Mendelson's general view of the constraints on radical changes in the welfare state. It certainly constrains a dismantling of the income security programs designed to protect individuals from the uncertainties of an insecure economy. But it also narrows the scope for rapid moves towards a more radically redistributive welfare state. Such a pattern of public anxieties is a recipe for incremental rather than dramatic change.

Redistribution in the 1980s

Every generation must judge anew the appropriate balance among the goals of social policy, thereby fashioning its own vision of the welfare state. The economic and social imperatives of the 1980s do require a rethinking of the reform agenda that guided the last generation. Expanded child care, retraining and job creation clearly stand as leading issues of the decade. Nevertheless, it would be unfortunate to sound a symbolic retreat from redistributive concerns. A vision of the welfare state that failed to accord high priority to reducing poverty and improving vertical redistribution through the tax/transfer system would be seriously incomplete as a guide to social action in the 1980s.

The grim realities of the first half of this decade underscored the central importance of income redistribution in this country. When all credit is given to retraining and job creation initiatives, the real story of social policy in this decade is the importance of income security. It was the transfer system that bore the primary burden of the recession. The economic problems of the decade generated a significant increase in the degree of inequality in the income that Canadians derive from their participation in the economy. Table 1 bears witness to the sharp decline in the share of pre-transfer income received by the lowest two quintiles and the increased share generated by the richest quintile. When attention is restricted to the primary distribution of income, the impressionistic accounts in the media and elsewhere of a growing gap between rich and poor are warranted. But Table 1 also demonstrates that redistributive mechanisms have largely offset this growing inequality, with the major role being played by income security programs. Personal income taxes do operate in the same direction, but to a much smaller degree; and of course these figures ignore all the other ways the state raises revenues. Nevertheless, the striking pattern is the stability of the overall distribution of income, a stability due in significant part to the redistributive role of the state.[21]

The adequacy of this redistributive system cannot simply be taken for granted while the attention of social reformers shifts to other issues. Tax reform will clearly be a major issue in the next years, with important implications for the distribution of income. The National Council of Welfare, the Canadian Council on Social Development and other social agencies have demonstrated that the tax changes introduced in 1985 and 1986 will nudge the personal income tax system in a somewhat less progressive direction over the rest of the decade. The heaviest burden in proportional terms will fall on families with earnings between the poverty line and the average family income, whereas families with above average incomes will carry a proportionately smaller burden. This trend will be further accentuated by the relaxed treatment of capital gains and the expansion of Registered Retirement Savings Plans.[22] The federal government is committed to much more sweeping reform during this parliament, and sweeping change opens both major opportunities and potential dangers for those committed to redistribution through the tax/transfer system.

A realistic appraisal of the political barriers to radical redistribution, especially those represented by middle-income voters, does not preclude incremental change. The successive reforms of the federal child benefits package, with the transfer of resources from the child tax exemption to the child tax credit, demonstrates the possibilities. In a policy system dominated overwhelmingly by incremental change, the direction of those small, cumulative steps becomes important over time. Redistribution of employment through social services might possibly become an important element of the welfare state. Income transfers, however, will certainly remain a central pillar, and our vision of the future of social policy must incorporate their importance front and centre.

Table 1
Income Distribution for Families by Quintile
1981-1984

Quintiles	1981	1982	1983	1984	Change 1981-84
Income Before Transfers					%
Lowest	3.3	2.8	2.6	2.2	-33.3
Second	12.1	11.4	11.0	10.9	-9.9
Middle	18.6	18.2	18.0	18.2	-2.2
Fourth	25.2	25.5	25.5	25.5	1.2
Highest	40.8	42.1	43.0	43.2	5.9
Total Income					
Lowest	6.4	6.3	6.2	6.1	-4.7
Second	12.9	12.6	12.3	12.3	-4.7
Middle	18.3	18.0	17.8	18.0	-1.6
Fourth	24.1	24.1	24.1	24.1	0
Highest	38.4	38.9	39.5	39.5	2.9
Income After Tax					
Lowest	7.3	7.3	7.2	7.1	-2.7
Second	13.7	13.5	13.3	13.3	-2.9
Middle	18.6	18.4	18.2	18.4	-1.1
Fourth	23.8	23.8	23.9	23.9	0.4
Highest	36.6	37.0	37.4	37.3	1.9

Source: Statistics Canada, *Income After Tax, Distributions by Size in Canada*, various years.

Notes

1. The section draws on the discussion in an earlier paper, K. Banting, "Universality and the Development of the Welfare State" in A. Green and N. Olewiler, *Report of the Policy Forum on Universality and Social Policies in the 1980s* (Kingston: John Deutsch Institute for the Study of Economic Policy, 1985).

2. L. Marsh, *Report on Social Security for Canada* (Toronto: University of Toronto Press, 1975), p. 17. On the universality of social risks more generally, see pp. 6-19.

3. As quoted in R. Rose, *Understanding Big Government: The Programme Approach* (London: Sage Publications, 1984), p. 55.

4. The phrase was popularized in the 1970s by Frank Field, then director of the Child Poverty Action Group, London, England.

5. See J.L. Palmer and I.V. Sawhill, *The Reagan Record* (Cambridge: Ballinger, 1984), especially Chapters 6 and 10.

6. For a comparative study of the trends in social assistance benefits between 1982 and 1985, see the Social Planning Council of Metropolitan Toronto, "Welfare Benefits: an Inter-provincial Comparison, 1985", *Social Infopac* 5/1 (March 1986).

7. R.M. Titmuss, *Commitment to Welfare*, 2d ed. (London: Allen & Unwin, Ltd., 1976), p. 191.

8. T.H. Marshall, *Social Policy in the Twentieth Century*, 2d ed. (London: Hutchinson, 1967).

9. See, for example, I. Gough, *The Political Economy of the Welfare State* (London: Macmillan, 1979); C. Offe, *Contradictions of the Welfare State* (London: Hutchinson, 1984); and J. O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973).

10. This theme is developed more fully in K. Banting, *The Welfare State and Canadian Federalism* (Kingston and Montreal: McGill-Queen's University Press, 1982), Chapter 6.

11. G. Myrdal, *Rich Lands and Poor* (New York: Harper and Row, 1957), p. 46.

12. S. Holland, *Capital Versus the Regions* (New York: St. Martin's Press, 1976), p. 56.

13. As quoted in the Task Force on Program Review, *Canada Assistance Plan* (Ottawa: Minister of Supply and Services, 1986), pp. 86-87.

14. On the role of assumptions about the family as a social institution in the origins of the Family Allowance, see E. Wallace, "The Changing Canadian State: A Study of the Changing Conception of the State as Revealed in Canadian Social Legislation, 1867-1948" (Ph.D. Thesis, Columbia University, 1950).

15. M.F. Plattner, "The Welfare State vs. the Redistributive State", *The Public Interest* 55 (Spring 1979), p. 30.

16. M. Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), Chapters XI and XII.

17. See especially C. Leaman, *The Collapse of Welfare Reform: Political Institutions, Policy and the Poor in Canada and the United States* (Cambridge: MIT Press, 1980); and L. Lenkowsky, *Politics, Economics and Welfare Reform: the Failure of the Negative Income Tax in Britain and the United States* (Lanham: University Press of America, 1986).

18. M. Mendelson, "Can We Reform Canada's Income Security System?", in this volume.

19. The contrast with a more redistributionist orientation is perhaps best illustrated by Mendelson's proposal for a universal training program. The take-up of the opportunities provided by the program would undoubtedly be much higher among middle-income individuals who often have higher initial levels of education and would be better placed to absorb the 30 per cent salary reduction involved in going on the sabbatical program. Poorer citizens might gain indirectly through temporary jobs made available by sabbaticants, but the major job-creation impact might well be for instructors in the training systems. Nevertheless, the poor would carry part of the financial burden involved, as the program would be financed through social security taxes, a less than progressive system of raising revenues.

20. R. Johnston, *Public Opinion and Public Policy* (Toronto: University of Toronto Press, 1986), p. 145.

21. This theme is developed more fully in Keith Banting, "The Welfare State and Inequality in the 1980s", *Canadian Review of Sociology and Anthropology* 24/3 (1987), pp. 309-338.

22. The analysis of the National Council of Welfare is reported in K. Battle, "Stop Taxing the Poor", *Policy Options* 7/8 (October 1986); see also D. Ross, *Work and Income in the Nineties* (Ottawa: Canadian Council on Social Development, 1986), p. 31.

The Welfare State Under Mrs. Thatcher

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In 1979 a Conservative government was elected in Britain under the leadership of Margaret Thatcher. The election was widely thought to represent a watershed in British politics. The new government was committed to breaking away from the consensus that supposedly had dominated the policies of previous post-war governments, regardless of party. This consensus had as its principal ingredients a commitment to Keynesian economics and a belief that the state could intervene in the economy at both a macro- and a micro-level in a way that would benefit both individual citizens and the nation as a whole. In contrast, Mrs. Thatcher's government had a firm belief in the self-regulating power of the free market. They were committed to the view that the operations of unfettered markets generally contribute far more effectively to the common weal than anything a government can do; indeed, government intervention both at the macro- and micro-levels almost invariably makes things worse.

Nowhere were these views more apparent than in the attitudes to the welfare state of the government and its supporters. They viewed the welfare state as one of the principal architects of Britain's economic decline, on the one hand imposing a crushing burden of taxation that stifled incentives to work and save and, on the other,

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undermining family and individual responsibility through indiscriminate hand-outs. Consequently, many of the new government's supporters viewed one of its principal tasks as relieving the taxpayer of the welfare burden. Public expenditure on welfare was to be cut; public assets were to be sold and public services contracted out to the private sector. The welfare state was to be privatized.[1]

But what actually happened? Was welfare spending cut back? Was the welfare state privatized? If not, why not? It is to these questions that this paper is addressed.

The first part of the paper is an examination of trends in public expenditure on the welfare state, focusing on the period of the first Thatcher administration, 1978-1979 to 1983-1984. The second part discusses the progress of privatization policies involving the reduction of public provision. The paper concludes with some comments on the implications for the future of the welfare state of this discussion of its immediate past.

Public Expenditure on the Welfare State

It is not easy to obtain useful information on trends in public spending during the period with which we are concerned. All expenditure figures in the annual government expenditure plans are given in current prices; but these reflect movements in relative factor costs as well as in the general rate of inflation and do not indicate changes in the 'real' value of such expenditures. What is needed is a series that adjusts properly for price changes, but this is not available from official government publications.

However, a set of estimates for the real value of key welfare expenditures has been constructed by David Winter and used in Atkinson, Hills and Le Grand (1986) for the period 1973-1974 to 1983-1984. Those for the period of the first Thatcher administration are given in Table 1. The expenditures are those on social security, the National Health Service (NHS), housing, the personal social services, and education. The relevant figures for a selection of welfare-related tax expenditures are also included. The price deflator used is generally that for retail prices; hence the estimates measure changes not in the volume of real resources used, but in the 'opportunity cost' of those resources in terms of private consumption forgone.

It is apparent that cuts occurred in housing expenditures (current and capital) and, to a lesser extent, in most areas of education. But in almost all other areas there were *increases* in the opportunity cost of the resources devoted to the services concerned. Expenditures on all forms of social security increased, except for the residual category; so did expenditures on the NHS and personal social

Table 1
Public Expenditure on the Welfare State
1978-1979 to 1983-1984

Great Britain	£ billions, 1980 prices	
Program	*1978-1979*	*1983-1984*
Social Security:		
Child-related	2.34	3.20
Age-related	9.57	11.51
Income-related	2.43	5.18
Unemployment	0.82	1.19
Other	4.09	3.87
Total	19.25	24.95
National Health Service:		
Hospital services	7.90	8.30
Family practitioner services	2.25	2.53
Other NHS	0.58	0.74
Total	10.73	11.56
Housing:		
Current	2.23	1.07
Capital	3.37	2.05
Income-related	1.16	1.96
Total	6.76	5.08
Personal Social Services:	1.96	2.44
Education:		
Nursery	0.06	0.06
Primary	3.17	2.70
Secondary	3.84	3.77
Higher	3.10	3.02
Other	2.04	2.60
Total	12.21	12.15
Tax Expenditures:		
Single parent allowance	0.09	0.12
Age allowances	0.33	0.38
Exemption of social security benefits	0.92	0.38
Mortgage interest tax relief	1.68	2.20

Source: Atkinson, Hills and Le Grand (1986) Tables 1 and 2.

services. The real value of all the tax expenditures also rose, except for the tax exemption of social security benefits.

How can this pattern be explained? Why is it that, despite the government's electoral and ideological commitment to rolling back the welfare state, key areas of welfare spending not only were not cut, but were even expanded?

One obvious explanation concerns changes in the demand or need for the services concerned. Many of the areas where there were sharp increases in public expenditure also saw significant increases in the need for the programs concerned. Can this solve the puzzle?

The concept of need in relation to the welfare state is problematic, partly because of difficulties of definition and partly because in several areas (such as health care and unemployment benefits) demand for the services concerned may be partly endogenous. In Atkinson, Hills and Le Grand (1986) and Le Grand and Winter (1987), these issues were resolved by examining changes in the potential 'clients' for some of the relevant programs. Their results are too detailed to discuss fully here, but they can be summarized as follows.

All *age-related* benefits taken together (including those relating to tax) increased by more than the numbers of elderly (men, 65 and over; women, 60 and over) over the period 1978-1979 to 1983-1984. Hence there was an increase in the real value of benefits per head to this group. *Child-related* benefits increased, but the number of children under 16 fell substantially, suggesting again an increase in the real value of benefits per head. All *income- and unemployment-related benefits* (again including those relating to tax) increased, but by less than the number of claimants, leading in this case to a fall in the value of benefits per head. There was a small increase per unit of need (as measured by a composite demographic indicator used by the Department of Health and Social Security) in the real value of NHS expenditures; generally, a decrease per unit of need for *housing* and *personal social services*; and an increase for all areas of *education*, except higher education.

Taking account of changes in need thus alters the picture somewhat. There were decreases per unit of need for income- and unemployment-related benefits, housing and personal social services, a pattern that seems consistent with the ideological position of the government. But there were also increases per unit of need for age- and child-related benefits, the NHS and most areas of education. How can this be reconciled with the operation of free-market ideology?

Le Grand and Winter (1987) argue that it cannot. The key to explaining not only these increases but the whole pattern of expenditures during this period does not lie primarily, or even largely, in ideology, but in the role of a crucial political force: the middle classes. The argument can be outlined as follows.

The middle classes – who for these purposes are defined as the occupational groups comprising professionals, employers and managers – are an important political pressure group. They are educated and articulate, have access to resources to support the causes they espouse and, as a result, have a well-founded belief in their ability to influence the outcome of policy. No politician, regardless of political persuasion, can safely ignore them. Moreover, politicians and civil servants themselves are often drawn from the ranks of the middle classes and move within their circles. However disinterested they may believe themselves to be, it is very difficult for them fully to overcome the effects of their background or current social position.

Now the middle classes have various interests in a number of different areas of the welfare state. Two, in particular, are important. First, many of the *employees* of the welfare state are middle class. Doctors, nurses, teachers, lecturers, social workers and office managers form an important – and disproportionately powerful – part of the personnel supplying many welfare services and benefits. As suppliers of state-provided services, these members of the middle classes have an interest in protecting their own employment and in opposing any cuts in expenditures or subsidies for the service concerned.

Second, the middle classes are extensive *users* of the welfare state. The families of professionals, employers and managers use the NHS and the education system (particularly after the age of 16) more than their numbers in the relevant populations would justify. For health care of all kinds, it has been calculated that members of Socio-Economic Groups 1 and 2 (Professionals, Employers and Managers) received public expenditures per person reporting illness amounting to 120 per cent of the mean. They also received 90 per cent of mean public expenditure per person in the relevant age range on primary education, 88 per cent of that on secondary education (pupils 16 and under), 165 per cent of that on secondary education (pupils over 16), 149 per cent of that on higher and further (non-university) education and 272 per cent of that on university education (Le Grand 1982, 26, 58).

With respect to social security, Central Statistical Office (CSO) estimates show, not surprisingly, that the distribution of unemployment and income-related benefits clearly favours the worse-off (see, for example, CSO 1985, Table 3, 107). These benefits are little used by the middle classes. Child benefits, on the other hand, are distributed roughly equally across the income distribution; middle-class families are similar in size to families in other income brackets and therefore have a considerable stake in this benefit.

The situation is more complicated with respect to old age pensions. The CSO estimates show that their distribution favours the worst-off, when worst-off is defined in terms of current 'original' income (income before taxes and the receipt of state benefits). Yet the value of original income for the elderly is clearly dependent in part on the fact that they receive a state pension; hence this evidence tells us little about the actual distribution of benefits. However, Victor and Evandrou (1986), using General Household Survey data, have shown that over 97 per cent of all elderly people, regardless of social class, received the state pension. Moreover, the higher the social class the longer the average life expectancy for both males and females (Black 1980); hence the greater the value of state pensions received over their lifetimes by members of the higher social classes. Hence this, too, favours the middle class in terms of use.

Users of a service have a strong interest in the size of the public expenditure on that service, for this affects their real income. Any subsidy to a welfare program with a significant proportion of middle-class beneficiaries is likely to have a strong supporting lobby.

Le Grand and Winter mobilize these facts to argue that the pattern of public spending on welfare, at least during the first Thatcher administration, was heavily influenced by middle-class pressure, either direct or indirect. Simple observation of that pattern lends support to the thesis. The services that showed an increase in expenditure per unit of need were age- and child-related benefits, the NHS and most sectors of education – all services in which the middle class have a substantial stake. The services that showed a decrease were housing, income- and employment-related benefits and personal social services – in most of which the middle class have less of a stake, if any at all.

The fit is not perfect; in particular, the middle classes have a large commitment to higher education, as both users and suppliers, yet it displayed a fall in expenditure per unit of need. This expenditure area aside, there does seem to be a pattern that is worthy of note.

In an attempt to examine the proposition more systematically, Le Grand and Winter marshalled evidence on changes in needs and expenditures on a wide variety of services, including several from outside the welfare state (specifically, transport, arts and libraries, labour market services, police and defence). The proportional changes in expenditures at constant prices and the proportional changes in the relevant needs indicators were calculated for all the services taken together, for welfare services, and for services with a high proportion of middle-class users and a high proportion of middle-class employees. For comparative purposes the figures for the term of the Labour government that preceded the first Thatcher administration were also calculated.

The (unweighted) mean growth in overall expenditure for the Labour period (1973-1974 to 1978-1979) was 46 per cent. For the Conservative period (1978-1979 to 1983-1984) it was considerably lower – 13 per cent. On the other hand, the needs indicators on average grew by less during the Labour term than during the Conservative period. It would appear therefore that the Conservatives succeeded at least in reducing the growth of public expenditure, if not in reducing its absolute level.

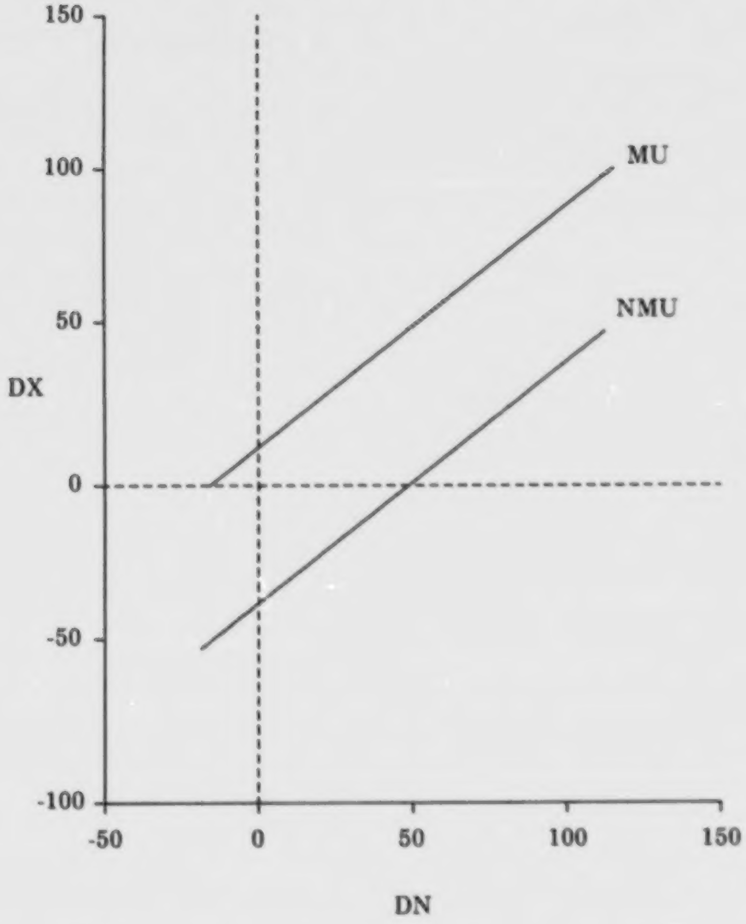
For both governments the growth rate of welfare state services was less than for the total, as was the growth in needs. For the Labour period, mean expenditure growth in the services with many middle-class users was 37 per cent, while their needs grew on average by only 3 per cent. For the services employing a high proportion of middle-class members, expenditure grew by 24 per cent while needs increased by 4 per cent. So while expenditure grew for the former group at a rate of about 80 per cent of the growth rate for the total, needs grew by only about a fifth of the average growth for all services in the sample. There was a similar, but less pronounced, tendency among services with a high proportion of middle-class users.

In the Conservative period, the services characterized by middle-class users grew on average by 19 per cent while their needs grew by only 7 per cent. Again, comparing these mean growth rates to the overall mean suggested an even more pronounced bias towards the middle class than during the Labour period. On the other hand, for services employing members of the middle class, expenditure grew by only 7 per cent, while needs grew by 9 per cent, suggesting no strong bias towards these services. This tends to support the hypothesis that the middle classes have been favoured in the growth of government expenditure, although the effect appears to be stronger for services used by the middle classes than for services employing them and more pronounced during the Conservative government than during the Labour government.

A more sophisticated econometric test of the hypothesis confirmed this conclusion. The results suggested that there was no significant difference between the periods in terms of expenditure patterns for those services with a high proportion of middle class employees and those with a low proportion. However, there was a significant difference between expenditure patterns for services with a high proportion of middle class *users* and those with a low proportion, particularly in the Conservative period.

The results for the Conservative period are illustrated in Figure 1. This shows regression lines relating changes in expenditure (DX) between 1978-1979 and 1983-1984 to changes in needs (DN) over

Figure 1
Changes in Real Expenditure and Needs
1978-1979 to 1983-1984



DX	Change in expenditures.
DN	Change in need.
MU	Services with a high proportion of middle-class users.
NMU	Services without a high proportion of middle-class users.

Source: Le Grand and Winter (1987).

the same period for services with a high proportion of middle-class users (MU) and services where the proportion of middle-class users is small or non-existent (NMU). From the diagram it is apparent that, in the absence of any change in needs (DN = 0), there would have been a cut of approximately 40 per cent in services that were not used by the middle class; by contrast, there would have been an increase of 10 per cent in services used by the middle class. For both types of services there was a close to proportional increase in expenditure resulting from increases in needs.

The estimates were used to perform a counter-factual experiment, determining how much expenditures would have changed during the Conservative period if there had been no middle-class effect. The results of the experiment suggested that there would have been a cut of 21 per cent in all services and of 24 per cent in welfare state services if there had been no middle-class bias; this compares with actual increases of 13 per cent and 7 per cent respectively.

It would seem, therefore, that one of the major reasons for the failure to cut back expenditures in key areas of the welfare state was that those areas served the middle classes. What of the other dimension of welfare 'privatization' – cutting back public provision?

Public and Private Provision

In one area of the welfare state, a policy of reducing public provision has succeeded dramatically; in two others, if it has not exactly succeeded, it has not failed either. Elsewhere, however, as with cuts in public expenditure, privatization is more conspicuous by its absence than by its presence.

The great success concerns the sale of public or council housing. Under the government's Right to Buy legislation, 722,000 council dwellings were sold between 1979-1980 and 1984-1985; a further 90,000 sales have been estimated for 1985-1986, and 75,000 are forecast for 1986-1987 (UK Treasury 1986, 146). In all about 10 per cent of public sector housing has been sold. This is a considerable achievement and one that has been (deservedly) popular.

The two other areas where a measure of success has been achieved are the contracting out of NHS catering and cleaning services and the expansion of private residential care for children and the elderly. The former permits hospital authorities to contract for catering and cleaning services through competitive tender, instead of relying on in-house provision. In numerical terms, this has to be counted something of a success; as of September 1985, 385 tendering exercises having been undertaken by health authorities. However, the actual amount of 'privatization' is less impressive; in-house organizations are allowed to tender along with private contractors, and they received nearly 70 per cent of the contracts. Nor are the savings remarkable, amounting to just £29 million over the whole period up until September 1985 (UK Department of Health and Social Security (DHSS), Press Release, December 11, 1985).

The proportion of children in care who are fostered (that is, live with families other than their own) rose from 36 per cent in 1979 to 48 per cent in 1985 (DHSS 1986, Table 7.8). Over the same period the proportion living in local authority residential homes fell from 31 per cent to 22 per cent. Between 1980 and 1985, the number of elderly people living in private and voluntary residential homes increased by one and two-thirds, while the number in local authority homes fell slightly (DHSS 1986, Tables 7.1 and 7.2). As a result, by 1985 the number of elderly living in private and voluntary homes was almost as great as the number living in local authority homes.

However, elsewhere in the welfare state the impact of privatization policies of this kind was minimal. Education vouchers – espoused earlier by Margaret Thatcher and her one-time Secretary of State for Education, Sir Keith Joseph – have not even appeared on the political agenda. Institutions of higher education have remained firmly under government control, as has the medical sector of the NHS. A major attempt to reform social security – the Fowler Reviews – has failed to privatize pensions or indeed any other aspect of the social security system. By way of illustration, it is instructive to look in a little more detail at two of these 'failures' – medical care and pensions.

The government attempted to encourage private medical care by a variety of measures, including the abolition of the Health Services Board that regulated the private sector, changes in consultants' contracts to increase the opportunities for private practice, and restoration of the tax exemption for employer-provided medical insurance for employees below a certain level of remuneration. In the early years the effect was considerable, with a 26 per cent increase in the number of subscribers to private medical insurance in 1980, followed by a 13 per cent increase in 1981. However, the rate of increase has now fallen sharply; by 1984, it was a mere 3 per cent. Also the entry of commercial firms into the market for providing hospital care has had the paradoxical effect of driving up the costs of private care. For this and other reasons, the private sector has remained small overall, with only 10 per cent of all hospital beds, 7 per cent of out-patient attendances (or visits) and 5 per cent of in-patient stays being private in 1982-1983.

The other interesting case concerns the proposed abolition of the State Earnings Related Pension Scheme (SERPS). This scheme was introduced in 1975 by a Labour government, but with all-party support. It provided for a basic flat-rate retirement pension, with an additional earnings-related supplement based on the best 20 years of earnings. Employers and employees with private occupational schemes could choose not to participate in the scheme: that is, pay a lower national insurance contribution (and not receive any SERPS benefit), so long as the private scheme offered as satisfactory a package as the state scheme.

SERPS came under scrutiny in the so-called Fowler Reviews. These originated in a 1984 decision by the Secretary of State for Social Services, Norman Fowler, to launch "the most fundamental examination of our social security system since the Second World War". The Green Paper[2] that resulted from these reviews (and from whose preface this quotation was taken) was thought generally to amount to somewhat less than that; but one major change that it did recommend was the abolition of SERPS.

The principal reason for this recommendation was its future cost. At its inception, the scheme was expected to be implemented fully in 1998. This postponement was, in the Green Paper's words, "nothing to do with building up a fund: there is no fund. The postponement was based on the hope that the scheme could be afforded from 1998 and go on being afforded thereafter."[3] But, the Green Paper concluded, that hope was vain. Projected increases in the number of elderly people relative to the size of the labour force indicated that there would be a sharp drop in the ratio of contributors to pensioners in the next 50 years (from 2.3 in 1985 to 1.6 in 2035). Hence the burden of the state pension scheme as a whole, and of SERPS in particular, would become insupportable.

The Green Paper's strategy for dealing with the problems posed by the future costs of pensions was simple: abolish SERPS for people 15 years or more away from retirement. For them a system of compulsory private pensions would be introduced. To ease the transition, those within 15 years of retirement would retain their SERPS entitlement and continue to pay contributions as before.

For the Thatcher government, this solution had the attractive feature of being consistent with one of its primary ideological concerns: that of engineering throughout the economy a fundamental switch from state to private provision. But, prior to the publication of the Green Paper, commentators had been "almost unanimous in their criticisms of the present scheme [of pension provision]" (Creedy and Disney 1985, 212). Indeed, many had recommended the abolition of SERPS, including some not necessarily committed to the ideology of the free market. For instance, a year before the publication of the Green Paper, the independent Institute of Fiscal Studies, on other occasions a fierce critic of the government's privatization proposals, produced a document on the future of social security that contained the following trenchant passage:

> We imagine any dispassionate reader will share our bewilderment at the introduction of SERPS. We doubt if the resources required to implement it are available, and if they are, we should not want to spend them on this form of indiscriminate largesse to the elderly. Deployed in other ways they could transform the social security system, or the tax system, or the interaction between them. Deployed in this way they do not even solve the principal weakness in current pension provision. . . . It is difficult to discuss the future of social security rationally in the shadow of this foolish commitment. (Dilnot, Kay and Morris 1984, 62-63)

With this kind of support the government must have been surprised at the extent of the criticism prompted by the proposal to abolish SERPS. Surveying responses to the Green Paper by institutions, the Child Poverty Action Group (CPAG) found 90 per cent actively opposed to abolition (CPAG 1985). The opponents included not only organizations that were traditionally of the centre or left, but also the Tory Reform Group (a Conservative Party pressure group), the private pension industry and the Confederation of British Industry.

Nor was the public in general sympathetic to the proposal. An attitude poll commissioned by the civil service unions found only 25 per cent approving the abolition of SERPS and relying on private pension schemes, compared with 52 per cent who disapproved (Ward 1985, 36). Even among Conservative voters, the proportion approving (41 per cent) was smaller than the proportion disapproving (44 per cent).

Faced with this almost universal hostility, the government backtracked. In a White Paper published a few months later, they produced a set of proposals for the reform of social security that included the retention of SERPS, albeit on a reduced scale.[4] After a rough passage through Parliament (including three government defeats during the House of Lords committee stage) the reforms reached the statute books in the summer of 1986.

What does one make of this outcome – and indeed of those of the other privatization policies of this kind? At first sight, it looks like the influence of the middle class again, but this time of middle-class employees as well as users. The areas where privatization policies have either not been proposed or have been proposed and failed are mostly areas with a substantial proportion of middle-class employees and/or suppliers; these include pensions, medical care and education. The areas where public provision *has* been reduced significantly relative to private provision are services with either predominantly non-middle-class employees (such as NHS catering and cleaning services), non-middle-class users (such as council housing) or both (residential care). In general, middle-class employees seem more effective than the working class in resisting pressures to expose them to market forces.

However, the SERPS experience suggests that this may not be the whole story. The unanimous hostility aroused by the proposal to abolish it seems more extensive than could be explained simply by middle-class opposition; moreover, it is not immediately clear that its retention is necessarily in the interests of the middle classes (who, after all, generally have access to private pension schemes). There may in fact be a wider consensus about the desirability of retaining public provision in some areas than might be expected from a simple concentration on middle-class interests. The nature of and basis for this consensus would be an interesting topic for future research.

Concluding Comments

One obvious inference from the preceding discussion is that any attempt radically to alter the shape and extent of the welfare state by explicit policy decision, such as was arguably the intent of the Thatcher government, is likely to fail. In particular, it seems that governments of the radical right (the type of government most likely to make such an attempt) will find it difficult, if not impossible, to cut public expenditure significantly on programs with a relatively high proportion of middle-class users and to reduce public provision in programs with a high proportion of middle-class employees.

An alternative strategy to privatization by explicit policy decision is privatization by stealth. That is, a particular public service can be starved of resources, leading to a deterioration of service, the flight of the middle classes to the private sector, and hence the loss of its most effective support.

The difficulty with this strategy, as Howard Glennerster has pointed out,[5] is that while the public sector is being run down, the government remains the agent responsible for services and has to face the criticisms – particularly, middle-class criticisms – that inevitably arise as the service deteriorates. In response to these and the associated political pressures it may be forced to reverse its strategy and pump resources back into the public sector, thus defeating its principal aim. Although it is too early to make any definite statement, it may be that some pattern such as this characterizes the current Thatcher administration.

All this suggests that perhaps the only way a radical attack on the welfare state can succeed is by concentrating on programs that benefit the less well-off, such as public housing and income support for the poor. This in turn suggests that if the welfare state comes under threat, the future of those of its parts that benefit the poor is relatively bleak, but the future of those parts that benefit the better-off is relatively secure.

Notes

1. There is an obvious difficulty in ascribing a consistent set of views to a group of people as diverse as "a Government and its supporters". There were many individuals both in and out of government who broadly supported the new government, but who did not subscribe whole- or even half-heartedly to the free-market philosophy – especially so far as the welfare state was concerned. Nonetheless it seems reasonable to say that their views were not those that characterized public and academic perceptions of the Thatcher administration – or indeed that administration's perception of itself.

2. *Reform of Social Security.* Cmnd 9517 (London: HMSO, 1985).

3. Ibid., p. 21.

4. *Reform of Social Security: Programme for Action.* Cmnd 9691 (London: HMSO, 1985).

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The Political Management of Unemployment in the United Kingdom: Another Issue Absorbed by the Welfare State?

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Introduction

> Young people in Britain are sceptical of the power of government to improve their lives. That is the hopeful lesson of this week's series of articles in *The Times* on the attitudes of those who have attained the vote while Mrs. Thatcher has been in office. They are also sceptical of their own powers to improve their lives. That is the depressing lesson. (*The Times*, September 4, 1986)

The Times leader, based on a survey of 18- to 25-year-olds in Britain (some 15 per cent of the electorate), echoed earlier poll findings, which suggested that the *political* impact of unemployment could be surprisingly small, given the general attention it attracts as an issue.

The Times survey found the same apparent inconsistencies in electoral attitudes, which helps explain the surprising success of the Conservative Party in the 1983 election, notwithstanding the fact that

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over 3 million people were unemployed at the time. Thus the survey found that 54 per cent of the respondents (who had in fact attained voting age during the previous Thatcher administration) considered that unemployment was the major issue of the day. Yet, as *The Times* noted, "... a massive majority do not actively blame the government for the plight of the 3.5 million who have no work". Moreover, the respondents also reflected another fairly well established phenomenon in Britain – a significant degree of pessimism about the future, with 38 per cent believing that they would be out of work involuntarily at some period in the next 10 years (see Tables 1, 2 and 3). As *The Times* put it, "Thatcher's children are dominated by the issue of unemployment as by no other, yet far from being radicalised by it, as some had hoped and others feared, they seem to have been politically enervated. They fear unemployment, they worry about it, they hate it: and yet, in the full flush of their youth, they accept it with the fatalism of the old."

Table 1
The Poll Sample: Who Does What

Q: At present, do you have a full-time job, a part-time job on a government training scheme, are you unemployed, or in full-time education at school, or in further education?

Full-time job	52
Part-time job	9
Training scheme/YTS	1
Unemployed	21
Still at school	1
Full-time further education	11
Other	5

Q: How likely do you think it is that you will be out of work against your will for some period during the next 10 years?

Very likely	20
Fairly likely	18
Fairly unlikely	26
Very unlikely	28
Don't know	8

Source: *The Times*, September 1, 1986.

While it would be unwise to place too much emphasis on one poll, there is other survey evidence, to suggest that even though coping with unemployment is likely to be a key task of the welfare state in the years ahead, it may not produce radical political change, major changes in traditional political support, or any particular radicalization of the electorate. Unemployment, like other welfare problems, shows all the signs of being absorbed and 'processed' according to well-known rules of welfare state politics.

Table 2
Issues in the Next Election

Q: What would you say are the two or three most important issues you will take into account in deciding whether or not to vote, and which party to vote for, in the next general election?

Unemployment	54
Education	26
Health care	20
Nuclear disarmament	15
Defence	14
Law & order/crime & violence/mugging	13
Housing conditions	12
Drugs	9
Taxation	9
Prices/inflation	6
Conservation of the countryside	3
Interest/mortgage rates	2
Foreign policy	2
Provision for pensioners	2
Industrial relations/trade unions	1
Leisure/recreation facilities	1
Pollution control	1
Privatization of nationalized industries	1
Public transport	1
Other	14
None	4
Don't know	11

Source: *The Times*, September 1, 1986.

The capacity of the political systems to absorb new and potentially stressful issues (such as environmentalism, race relations, equal rights for women) is rather high. The argument in this paper is that unemployment as an issue seems no particular exception and is being absorbed successfully into the broad apparatus of the welfare state. Insofar as macro-economic policy is unable to solve the problem of unemployment, then the unemployed will be cared for as the sick or the homeless are looked after. This is not to suggest that absorbing the problem of unemployment into the welfare state net is a satisfactory solution from the perspective of the unemployed themselves – far from it. The growth of the welfare state has not solved the problem of poverty, but it has made poverty unexciting politically. The signs are that the issue of unemployment is being handled in just the same way. It is probably here to stay, it will not be solved adequately, but it will become routine in political terms.

Table 3
The Causes of Unemployment

Q: What do you think is the main cause of unemployment in the country as a whole?

Government/Conservative Party	21
New technology/micro-chip	10
World situation/world recession	9
Poor management/lack of investment	8
People don't want to work/too lazy	6
Too many people/not enough jobs	5
Immigrants/blacks	5
Foreign imports	4
Poor education/lack of qualifications	3
Workers/workforce	3
Better off on the dole	2
Trade unions/union leaders	1
Common Market/EEC	1
Other	10
Don't know	19

Some respondents gave equal emphasis to more than one answer.

Source: *The Times*, September 1, 1986.

Two phenomena have been responsible for the relatively successful management (in political terms) of the unemployment issue in Britain. First, as attempts have been made to solve the problem, an unemployment 'industry' has burgeoned, bringing about the incorporation of a wide range of groups and organizations and causing a proliferation of new groups and organizations. Second, government has been adept at lowering expectations, assisted by the introduction of a range of policies and public funds, in such a way that it has been able to pursue other policy objectives – such as lowering inflation and raising productivity (Richardson and Moon 1984, 36).

The Unemployment Industry

The big issues in political life have a tendency to develop their own 'industries'. Thus, in Britain, we have seen the development of a race relations industry and an environmental industry consisting of large numbers of individuals and groups that have succeeded in penetrating these public policy domains. It may sound perverse, but it is also true to say that the unemployment problem has led to the emergence of an unemployment industry (Moon and Richardson 1984a, 391). In the case of unemployment, this is not simply manifest in the growth of the Manpower Services Commission (MSC), whose expenditures grew by a factor of 2.8 in real terms between 1974 and 1982 (excluding expenditures on behalf of the Department of Employment).

Numerous groups, including the Confederation of British Industry (CBI), the Trades Union Congress (TUC), local government, and those without the obvious sectional base of the CBI and TUC or the public institutional status of the MSC or local authorities, have become wedded to the unemployment issue and, in some cases, to government policies designed to alleviate unemployment. As with the environmental issue in the 1970s, some of the groups existed prior to the emergence of mass unemployment during the 1970s and have simply redirected their energies as this new problem has emerged. Other groups have been created in direct response to the problem. To understand the politics of unemployment, a knowledge of this network of groups is essential.

Most of the groups are united by an interest in the issue of unemployment, but there are considerable differences in their nature, aims and activities. Other groups, whose primary existence has nothing to do with unemployment as such, have tried to piggy-back on the issue in an attempt to give added impetus to their own issue. For example, in a report on a proposed investment program for energy conservation, the Association for the Conservation of Energy used as its major selling point the fact that up to 155,000 new jobs would be created. Similarly, a large retail group stated that it could employ an additional 1380 people if Sunday trading were made legal in England and Wales.

It is possible to distinguish five broad categories of groups involved in the unemployment issue: business organizations, trade unions, voluntary organizations, campaigning and research groups, and consultancy and brokerage organizations.

Business organizations

One of the most salient features of the unemployment industry is, somewhat surprisingly to many, the role of the business community. Initially this was simply a feature of the tripartism central to the workings of the MSC. In announcing the creation of the MSC in 1973, Maurice Macmillan, then Secretary of State for Employment, announced that this would be a new kind of organization:

> The government attach great importance to what has become known as the tripartite approach . . . as is shown by the proposed membership. . . . I am not suggesting that they [board members] are mandated or delegates who must refer back on every major point, but they must carry the confidence of the organisations, which helped them to be appointed in carrying out their daily functions.

Thus, alongside representatives of the TUC, local authorities, and voluntary and educational organizations, business representatives had an important opportunity to contribute to national responses to unemployment. This was complemented by business representation on regional, area and district MSC boards.

As the economic crisis worsened, the role of the business community increased in delivering policy responses to the unemployment problem, in providing facilities for courses under the Training Opportunities Scheme, in sponsoring those on job creation courses, and in providing work experiences and training opportunities under the Youth Opportunities Programme (YOP) and the Youth Training Scheme (YTS). Under YOP, employers' (business, voluntary or governmental) facilities were used for work experience, either within the premises or in firms' training workshops, and for work preparation, either on short training courses or on assessment and employment induction training courses. Under YTS, the MSC contracted out responsibility (usually to employers' organizations) to act as managing agents responsible for designing, managing and delivering the year-long package of training and work experience.

However, this mushrooming of business organizations within the ambit of the MSC is by no means the full extent of the business involvement in the unemployment industry. Over the last decade a greater 'corporate responsibility' has emerged in the UK, sparked by the unemployment crisis and directed primarily to alleviating its effects (Richardson 1983).

With the serious escalation of youth unemployment in 1980, the MSC recognized its own inability to provide opportunities for the growing number of YOP participants and asked the CBI to help by establishing what became known as the CBI Special Programmes Unit (CBI SPU). The CBI SPU consisted of about 50 secondees from business organizations; their task was to win the commitment of leading employers to help in delivering YOP. This was done at two levels: first, by using contacts on boards of directors to win over large firms and second, by using the regional structure of CBI SPU to encourage smaller firms to participate. CBI SPU claimed to have created 35,000 work experience places under YOP in 1981 – about 40 per cent of all new places for that year – and 10,000 year-long training places in 1982. To assist the MSC in preparing for the launch of YTS in September 1983, the CBI SPU organized numerous conferences to promote contacts between local MSC staff and high-level representatives of business and industry. It also approached individual firms to encourage them to take on YTS trainees and conducted feasibility investigations where appropriate. CBI SPU secondees also acted as trouble-shooters if problems arose within individual schemes in their early stages.

Further business initiatives occurred outside the immediate sphere of MSC programs. For example after a conference at Sunningdale in 1980 where large US and UK firms discussed community involvement, a new organization – Business in the Community – was set up to stimulate the formation of local enterprise trusts. These are independent agencies whose boards normally consist of business and local government interests, whose aim is to give advice and practical assistance to existing and new small firms on questions of finance, market research and premises. The trusts are usually staffed by business people on secondment from their own employers; sometimes they are young 'high flyers' and sometimes personnel near retirement. This new type of organization was pioneered by the Community of St. Helens Trust, which has operated with particular support from Pilkington Brothers since the early 1970s, with the object of stimulating growth in Lancashire to ease job losses caused by structural changes in traditional local industry. There are now several hundred local enterprise trusts, often under the guidance of Business in the Community, which has absorbed the CBI Special Programmes Unit and has 153 member companies (Business in the Community 1986).

One obvious question arises in light of this brief survey of growing corporate responsibility: Why are firms extending themselves when recession has brought them enough other problems of their own? Different organizations will no doubt have varying motivations. The 1981 inner city riots are certainly thought to have affected business attitudes. As *The Economist* observed (February 20, 1987), companies like Marks and Spencer recognize that a healthy High Street depends on healthy back streets. By spending some £1.25 million on community work and charities, this firm was "making a sensible long-term investment in its market place. If urban disorders become a regular fact of life, many of its 260 stores would not survive."

The decision of firms to provide secondments of their staff is probably a mixture of social conscience and a desire to be seen to be doing the 'right thing'. In addition, in the case of younger staff, they receive practical training through experience in dealing with a wide range of individuals, organizations and problem areas, thus equipping them better for their future work. In the case of some older personnel nearing retirement, secondment is an easier option for employers than redundancy; at the same time it meets the other objectives just identified.

Another factor is that, at worst, firms offering YTS places can obtain a certain amount of cheap labour (though this could be offset by administrative and training costs involved). At best, employers have the opportunity to give potential recruits an 'extended interview' by observing them on the job for several months.

A wider issue could also be mentioned. In a revealing statement, the CBI commented that

> ... companies fear that if they make no attempt to find solutions to community problems, the government may increasingly take on the responsibility itself. This might prove costly to employers both in terms of new obligations and greater intervention in the labour market. Many companies prefer to be one step ahead of government legislation or intervention, to anticipate social pressure themselves and hence be able to develop their own policies in response to them. (CBI 1981)

Business support for local enterprise agencies was approximately £21.5 million in 1985 (having risen from £12.5 million in 1984) and was estimated to be £30 million in 1986. The element of self-interest has been echoed more recently by Business in the Community which has argued that business must be involved in responses to unemployment because neglect of the issue may bring a high price in terms of social breakdown or the withdrawal of social consent for business. This clear concern about preserving social structures and corporate legitimacy and autonomy suggests that corporate involvement in the management of the unemployment issue may have an ideological foundation (Moore and Richardson 1987). Whatever the motivation, it may prove difficult for business to avoid expanding its involvement. For example, representatives of some of Britain's largest companies met at 10 Downing Street in December 1986 to launch The Per Cent Club, with each company agreeing to devote at least half of one per cent of its pre-tax profits to community contributions. Launched by the Prince of Wales and supported by the Prime Minister, the Club marks another stage in the institutionalization of wider business involvement in community problems such as unemployment.

Trade Unions

Like the CBI, the TUC became closely involved from the inception of the MSC by virtue of its representation on the Commission and on the Scotland and Wales MSC committees. Similarly, trade union representatives participate in the 54 Area Manpower Boards. Indeed, trade union participation within the MSC has continued despite disruptions in other aspects of relations between trade unions and government. However, the role of trade unions in the unemployment industry has been somewhat more variable and ambiguous than that of business, notwithstanding the CBI's intermittent calls for some form of reflation through spending on infrastructure.

While the TUC has been a loyal participant in MSC, its 'political' position is highly critical of general government activity in this area. For instance, in 1983 it called for a £10-billion spending package to fight unemployment, gave backing to two organized public protests against the government's unemployment policy, and published special leaflets on the issue. These activities have not been repeated since the 1983 election. While objecting to the government's overall economic strategy and to threatened redundancies, once workers become unemployed, most trade unions have little contact with former members.

The TUC does act as co-ordinator of the Centres for the Unemployed, of which there are now over 150; however, many of these are the product of local initiatives and usually depend on local providers of resources (e.g., local government, local charities, local MSC offices). This has led one observer to conclude that "the emergence of unemployed organisations reflects the inability of the unions to defend their interests within the normal industrial and political framework" (Whitston 1981).

In some places, especially those with high unemployment, it has been reported that trade unionists have been especially keen to press their employers to participate in YOP and YTS, as they see no other alternatives for their children. Similarly, the TUC has published a guide to the YTS, explaining that

> the trade union movement has long campaigned for training opportunities for all young people. The Youth Training Scheme developed by the Manpower Services Commission is a mighty step in the direction. It will be introduced to many workplaces during 1983. The trade union movement needs to be ready to protect the interests of young people; ensure that the YTS is not a cheap labour scheme; develop trade union influence over the way it operates. Under the YTS there are large opportunities but also massive challenges. This leaflet aims to help trade unionists to understand them and face up to them. (TUC 1983)

The leaflet goes on to encourage negotiators to press their employers to run schemes, to become involved in negotiations about status, pay and conditions, and trade union membership for trainees, and to take part in monitoring the schemes. Warnings are given about maintaining standards, but in practice this seems to be subsidiary to the main aim of co-operation. Indeed there is evidence that trade unions have identified potential benefits in YTS, such as gaining new members to compensate for those lost through redundancy (or layoffs). As employers are expected to give permanent employment to two of every five trainees taken on, unions are rushing to offer free or cheap membership to trainees to encourage those kept on to become full members. An additional reason for co-operation is that unions, like employers, find it difficult in terms of their public image to refuse to co-operate.

Notwithstanding the political difficulty, the Conservatives' third election victory in a row, in June 1987, produced something of a crisis for the TUC. This was caused in part by the TUC's frustration with its general decline in political power since 1979 and in part by the government's own determination to push through a more radical (and perhaps more ideological) approach to many issues, including unemployment. Of particular concern to the TUC was the government's adherence to its Jobs Training Scheme (introduced in early 1987) for 18- to 25-year-olds, but paying the equivalent of unemployment pay rather than a training allowance. The TUC believes that a training allowance should be paid and is also critical of the amount of training given under the scheme.

After much debate, the TUC decided, by a 14-12 vote at its General Council (after the June 1987 general election), to withdraw its co-operation from the scheme. The build-up of frustration at this time has led to a bitter debate within the TUC over whether it should continue to remain in the MSC at all, with unions split over the costs and benefits of continued participation in the tripartite body. The government's proposal, after the 1987 election, to withhold unemployment benefits from those under 18 who, if without a job, refuse to join the Youth Training Scheme, seems, at the time of writing (July 1987) to place further strains on the TUC/government relationship.

Voluntary organizations

Two types of voluntary organizations can be distinguished within the unemployment industry. First, some existing voluntary bodies have turned their attention to the unemployment issue as it has emerged, even though their main aims are broader that simply alleviating unemployment (e.g., Community Service Volunteers, Community Task Force, National Council for Voluntary Organisations, Community Projects Foundation, and the Volunteer Centre). These groups (or local organizations under these umbrellas) have been responsible for implementing a large number of MSC youth opportunity and adult job creation schemes and are therefore playing a key role in implementing public policy. Projects include establishing and running community day centres, providing services for the elderly, providing resource and information centres for the unemployed, establishing training workshops, and carrying out environmental improvement projects.

In addition, voluntary organizations are involved in providing similar opportunities outside the orbit of the MSC, either autonomously or, more usually, in partnership with local authorities and local development and enterprise agencies. In some cases voluntary organizations have even been responsible for creating 'community companies' and 'community co-operatives', which were first established to provide work but have prospered to provide profits and some job security for participants. As in other aspects of welfare state provision, voluntary organizations are often performing public functions, and the distinction between public and private agencies is increasingly unclear.

The Community Task Force (CTF) illustrates the extent to which charitable organizations have become an essential feature of MSC program provision. Having been established to provide outdoor adventure holidays for children from inner cities, it currently provides almost 10,000 places for the Community Programme (the adult job creation scheme introduced in October 1982) and has provided about 2000 places for YTS. Indeed, CTF has completely reorganized its own management structure to match the delivery systems of the MSC. Further, like YTS sponsors, it has contributed to the scheme by launching a major program of induction and training to prepare its staff for the new youth scheme.

Community Service Volunteers (CSV) provides a further example to indicate the scale of the contribution of the voluntary sector to job creation programs. During 1981-1982, the CSV were operating 11 youth employment schemes funded mainly by the MSC, offering community service opportunities for about 2000 16- to 18-year-olds and 55 adults, all of whom otherwise would have been unemployed.

These references to national organizations should not disguise the extent of initiatives by local voluntary organizations in this field, which have also been crucial to the implementation of MSC programs. For example, during 1981-1982, organizations within the Glasgow Council for Voluntary Service provided just over 200 places for the Community Enterprise Programme (which preceded the Community Programme). To give some idea of the number of groups operating at the local level, in 1981-1982 the Glasgow Council for Voluntary Service had a membership of almost 200 organizations. Of these, 66 voluntary organizations and charities provided training opportunities through the local Community Project Agencies, set up to provide MSC financing for such initiatives. If this level of group activity is typical of the national pattern, we could expect over 3000 local groups to be providing such opportunities.

In addition to these broader voluntary organizations, national youth organizations have increasingly directed their energies to the problem of youth unemployment (e.g., National Association of Youth Clubs, British Youth Council and the National Youth Bureau). Indeed, the National Association of Youth Clubs could be considered a pioneer of innovative job creation policy; it instigated the Community Industry scheme in 1972 (predating the first government-run job creation scheme by three years) and has continued to administer it since then, with financing initially from the Department of Employment and latterly from the MSC. The premises required for the scheme are normally provided by local authorities. While not designed as a panacea for unemployment but as help for disadvantaged young people, the scheme has much in common with the job creation programs of the MSC.

The Youth Opportunities Development Unit was set up within the National Youth Bureau with funds from the MSC. The unit provides information and advice to youth workers in general, including those responsible for the delivery of the YTS schemes.

Similarly, the YMCA is running two youth training schemes, Training for Life and Youth at Work Service. Both are backed by the Manpower Services Commission and involve the co-operation of private companies like Marks and Spencer and IBM.

Churches have also sponsored MSC schemes, launched their own job creation projects, and provided leisure and counselling centres for the unemployed. Church Action With the Unemployed was formed in 1982 to encourage more churches to respond to the unemployment problem, especially long-term adult unemployment in inner cities, not only through pastoral work, but also with information on job creation opportunities and advice on employment openings under MSC schemes.

Other more specialized voluntary groups have become involved in the unemployment industry. In October 1983, the National Association for the Care and Resettlement of Offenders (NACRO) was running 48 projects in England and Wales under the YTS, providing about 2300 places. (This figure had increased to over 3000 by August 1986). Most of the young people participating in these projects are referred by the Probation and Social Services. NACRO is a national agency for the delivery of the Community Programme, providing in 1983 for up to 8000 long-term unemployed ex-offenders. By August 1986 this figure had more than doubled, to over 18,000. NACRO's Employment Development Unit for YTS schemes is financed by the Home Office, the MSC, and the DHSS. The Community Programme section is financed through fees earned by acting as an MSC Managing Agency; the Voluntary Projects Programme is by a direct MSC grant.

In summary, voluntary organizations have not only fulfilled their traditional welfare state role as providers for the disadvantaged but have become an essential part of the MSC delivery system. During 1981-1982, 44 per cent of community project places and 25 per cent of training workshop places under YOP were provided by voluntary organizations. Further, a survey indicated that these schemes received the highest popularity ratings by YOP trainees. In certain cases, schemes run by voluntary organizations have been used as pilot projects by the MSC. For example, the Community Service Volunteers' Springboard schemes were studied in the design stage of the Youth Training Scheme. Thus, under certain conditions, outside groups may be more able than government to deliver unemployment policies effectively, and this may also be true of welfare policies generally.

There are several reasons for their effectiveness in implementing public policies. In many cases voluntary organizations had been providing opportunities for the unemployed before the inception of MSC; they usually have superior detailed knowledge of local conditions and local government, business and trade union personnel and have developed considerable expertise in identifying what will work at the grass roots level. Central policy makers, and even local MSC personnel, inevitably lack this important skill to some degree.

As with the Community Task Force, voluntary bodies may adjust their own activities and internal structures according to the nature of governmental activity, with the dual purpose of contributing to a recognized need and enhancing their own standing, in terms of the availability of funding and increased responsibility, within the delivery network. Thus an entrepreneurial phenomenon is at work, with voluntary bodies being attracted to MSC programs and the issues that surround them. Leaders of existing groups see the unemployment issue as not just a problem but also an opportunity for extending their own base.

Campaigning and research groups

There is, of course, great diversity in this category. The Jobs for Youth Campaign and the People's March for Jobs have sought a high profile by mobilizing the public, and notably the unemployed. Both had the blessing of the TUC (though some prominent members of the TUC General Council were suspicious of the 'extremist' elements within both movements). The Jobs for Youth Campaign, whose slogan was "Give us a future", hit the headlines in 1981 with its Jobs Express, which transported unemployed teenagers around the country and, finally, to London for a march and a meeting with the prime minister and other members of the government. The Campaign virtually ground to a halt after this, but efforts were made to revive it with the publication of a charter: *A New Deal for Youth*.

The People's March for Jobs first took place in 1981 and succeeded in winning considerable press attention. The second march, from Glasgow, Liverpool, Keighley, Hull, Great Yarmouth and Land's End, converged on London in the week before the 1983 general election, thus gaining some publicity. However, the march was surrounded by a certain acrimony between the TUC and the Labour Party leadership, stemming from disagreements about the electoral wisdom of supporting the march, and the march itself attracted relatively few participants.

Other campaigning groups have not sought to mobilize members of the public, but instead have directed their efforts to those implementing schemes and those with access to the policy-making process. Perhaps the most broadly based of these is the Unemployment Alliance, an umbrella group whose founding members were the NCVO, Age Concern England, Youthaid, the Low Pay Unit, the Child Poverty Action Group, the National Association of Citizens

Advice Bureau, MIND, the Disability Alliance and the Scottish Council for Social Service. The Unemployment Alliance concentrates on drawing attention to the problems faced by the long-term unemployed, such as poverty and ill-health, and its main targets include MPs and the press. In contrast to the Jobs for Youth Campaign, the campaigning role of the Alliance is restricted to addressing the effects of specific policies or policy proposals on the unemployed; this is because of its charitable status and, according to one observer, its fragmented composition. Although the Unemployment Alliance does not have a public mobilization role, it does differ from some other campaigning and research groups in that it has not had direct access to the government policy-making machinery; its constituent members continue to act independently in relation to government departments.

Other groups with a less fragmented composition than the Unemployment Alliance also engage in research and campaigning. Such organizations as Youthaid, the Unemployment Unit, and Work and Society conduct research on aspects of the unemployment problem, then publicize the findings through monographs, bulletins, press releases and seminars. Special efforts are usually made to win the attention of MPs, those in government, the CBI and the TUC, as the latter two play such a crucial role in MSC policy making. As its name suggests, Youthaid is concerned primarily with unemployment matters pertaining to youth.

Other groups have also been drawn into the unemployment industry. Youthcall was formed to campaign for increased opportunities for community service for youth. Its discussion document, "Youth Call: A Debate on Youth and Service to the Community", was well publicized and was welcomed by some MPs from all parties. This was thought to have been effective in the MSC's inclusion of community service provision with YTS. Equally significant, the amount of attention this 'issue within the issue' has received owes much to the public salience of the problem of unemployment. The Youthcall document also provoked the formation of Youth Choice, a coalition of other voluntary, promotional and research groups who opposed what they believed to be a Youthcall preference for a compulsory scheme. Youth Choice attempted to provoke informed discussion about future opportunities for young people, including education, training and employment.

As the problem of unemployment has become more widespread and as the issue has achieved greater prominence, more promotional groups have been formed. A recent example is The Charter for Jobs, attempting to be a broadly based, left-of-centre organization for campaigning and research. Their activities reinforce the high political profile of unemployment and its attendant problems, whether by sponsoring public events covered by the media or providing a steady flow of information to their sympathizers in Parliament, the press, and other organizations.

Consultancy and brokerage groups

The consultancy/brokerage groups are fewer in number than those concentrating on campaigning and research. One of the main aims of the independent Centre for Employment Initiatives is to provide research and feasibility studies for would-be sponsors of projects in response to unemployment, whether job creation, training or new enterprise. It offers its services to any organization working in the field of unemployment, making little or no charge for assistance to community or voluntary groups. The Centre also provides technical assistance for new and existing schemes and it plans to create a data bank on schemes already in operation for the unemployed. Finally, the Centre produces a journal to present a wide variety of news, information and ideas for those working in the unemployment field.

The Local Economic Development Information Service (LEDIS) offers information on a wide variety of local employment initiatives throughout the UK to those involved in economic development and job creation.

Practical Action, set up in 1978 by Sir Kenneth Cork (then Lord Mayor of London), acts as a link, raising unused resources from the business sector and directing them to youth employment schemes, whether run under MSC auspices or not. About 50 per cent of Practical Action's costs are met by the MSC and the rest by about 30 companies. It has no overt campaigning or information role but prefers to live up to its name and get on with the job of matching needs with resources (usually equipment and expertise). It is estimated that during 1982 £0.25 million was raised from about 400 companies. Practical Action also runs a national discount scheme for the hire and purchase of equipment for youth and unemployment projects.

Two other consultancy organizations have emerged, offshoots of the British Steel Corporation (Industry), which was set up by the BSC to provide alternative job opportunities for steel workers made redundant. PA Creating Employment (PACE) is backed by PA Management Consultants (early sponsors of the CBI SPU) and acts in a consultancy role to companies with spare capacity. PACE attempts to persuade them to take on more labour as they expand. Job Creation Ltd. (JCL) works differently, actually moving into areas and operating on a similar basis to local enterprise trusts. It attempts to find employment openings for its clients (e.g., local authorities or companies) and charges the client accordingly. More recently, British Coal (formerly the National Coal Board) formed British Coal

(Enterprise) to alleviate some of the effects of closure of pits. It estimates that it has helped to create 2300 jobs by contributing some £3.3 million to projects costing £20 million (Moore and Richardson 1987).

As MSC schemes become a more permanent feature of the British economy, we would expect to see growth in the number of organizations that identify and fill gaps in the delivery and provision systems. Thus, the unemployment issue has become a 'market', with groups exploiting market opportunities by identifying gaps in the market and developing new 'products' or schemes. A good example of this phenomenon was the formation of the Link Organisation, which receives a commission from the MSC for every trainee it places in a YTS scheme. Again, parallels between the unemployment problem and other social problems are not hard to find. The provision of welfare and the operation of some market forces are not incompatible. Public, private and semi-public organizations are inventive in finding ways to meet societal needs.

The unemployment industry network

Despite the differences between groups in the unemployment industry (such as their motivations for involvement, the value they attach to training schemes for the unemployed and the idea of a national youth service scheme, and their orientation to the MSC), there are numerous formal and informal contacts, as well as overlapping memberships, within the network, which also extends to people in government circles – for example in the MSC and local government.

Thus a genuine policy community appears to be evolving within the loose network of business, labour and voluntary groups, as well as local government and MSC personnel. Groups have come to play a significant part in implementing schemes for the unemployed, but they have also been invited to participate in policy making and program evaluation, signifying their arrival as insiders in the policy process. To an important degree, government has managed to mobilize the many groups now concerned with unemployment, in an effort to ameliorate its worst effects. While many of these groups oppose the government's economic strategy, this has not prevented them from assisting in the process of incorporating mass unemployment in the established procedures and conventions of the welfare state. Thus we see the combination of public funding, policy succession (Moon 1983), and private 'incorporation' so familiar in other welfare issues. This has been pursued along with a second strategy – the lowering of expectations and the skilful political management of the unemployment issue.

The Lowering of Expectations and the Art of Political Management

The Conservative election victory of 1983 is of special interest in terms of the possible political effects of high and continuing unemployment. Clearly, the Conservative win cannot be ascribed to a single factor (the electoral system apart). Public perceptions of the abilities of the other parties played an important role, as did estimations of the abilities of the Thatcher administration. Issues such as defence, inflation, nationalization and the Common Market were all salient at different points of the election campaign. Yet we are left with a political paradox: the juxtaposition of the long-established political wisdom that mass unemployment would spell electoral disaster for a British government and the fact that the Conservative share of the total votes cast in June 1983 was only 1.5 per cent lower than it had been in May 1979.

While other issues played a part in the campaign, unemployment proved to be the most prominent. Since mid-1980, public opinion polls had indicated that unemployment was seen as the most important issue facing the country (except during the Falklands War). Thus the Conservatives did not succeed because the unemployment issue had a 'muted' status. However, closer examination of opinion poll data indicates that although the public perceived unemployment to be the most important issue facing the country, the conventional corollary to this, that government is to blame, had broken down. Without this decoupling, the Conservatives would have faced a difficult task during the election campaign.

For several months prior to the election there had been a decline in the public's propensity to blame the government for high unemployment. Indeed, during the election campaign the polls indicated that the Conservative Party drew level with the Labour Party in answer to such questions as "Which party do you consider to be the best equipped to fight unemployment?" (Millar 1984).

Gallup Poll findings provide insights into new subtleties in the way respondents view the unemployment issue. After the Falklands War, over 75 per cent of respondents identified (unprompted) unemployment as the most urgent issue facing the country. Yet in December 1982, 43 per cent said that unemployment could sometimes be justified as necessary during a period of adjustment; only 57 per cent thought high unemployment could be solved if a government really tried to apply the right measures, and 36 per cent thought no government could really solve it. When asked how long it would be before unemployment would be drastically reduced, only 12 per cent chose any of the specified periods of three years or less; 47 per cent chose periods between three and four years, 22 per cent said never, and 19 per cent did not know. Further, when asked on three separate occasions whether they thought the level of unemployment would change over the next year, more than 70 per cent of respondents thought it would increase sharply or slightly. Thus, although high unemployment was seen consistently as the most important issue facing the country, expectations about its solution were low, and government was decreasingly singled out as the sole cause of the problem.

Effective campaigning by the Conservatives, inept campaigning by the opposition, the role of the Alliance, personalities, and the interpretative role of the popular press—all played a part in presenting the unemployment issue to the electorate. However, the political success of the Conservatives, given such high levels of unemployment, owes much to the government's handling of the problem while in office. The introduction of special anti-unemployment measures, the playing of the numbers game, and the removal (either temporarily or permanently) of some people from the labour market coincided with changing views among the electorate about unemployment.

The new schemes to counter unemployment played a significant part in the successful political and social management of the unemployment issue by the government; through these schemes, the government has been and has been seen to be doing something about unemployment. This has enabled the government to deflect potential criticism and at the same time pursue its broader economic objective of increasing Britain's international competitiveness.

Typical was the Youth Training Scheme (YTS), launched in September 1983 to provide a year's training and work experience for all 16-year-old school-leavers, with or without jobs, and unemployed 17-year-olds. This was designed to remove about 460,000 young people from the employment market and was the first step in a process of abolishing the expectation that 16-year-old school-leavers should go straight to work. It can thus be seen as a somewhat radical policy change by Mrs. Thatcher's government. YTS has now been expanded and developed to give 16-year-old school-leavers two years of training (and one year for 17-year-olds). Sixteen-year-old entrants receive a tax-free allowance of £27.30 per week for the first year, rising to £35 per week in the second year.

Clearly, this scheme does not really *solve* the problem of youth unemployment, but it possesses some positive features from the government's perspective. The removal of the 360,000 young people who entered YTS in 1985-1986 from the race for jobs obviously reduced competition in the open job market to some extent. As youth unemployment has been one of the most sensitive areas of the unemployment problem, this also makes political sense for the government. Given that the 16-year-old cohort will become smaller towards the end of the decade, the policy does constitute a perfectly sensible 'holding operation' while the youth unemployment problem eases as a result of demographic trends.

Other schemes, such as the Community Programme for those 18 and over and for the longer-term unemployed, assist in both removing workers from the open labour market and demonstrating that the government is at least responding to popular concern. The unemployment issue has seen plenty of policy innovation from the Conservative government. A recent publication by the Department of Employment lists 10 employment schemes or programs, 8 training schemes or programs, and 5 enterprise schemes or programs (Department of Employment 1986). Thus, under training the Department lists YTS; the Job Training Scheme (for unemployed adults willing to learn new skills); Training for Enterprise (full- or part-time training for the business owner or manager); Training Grants for Employers (government help for training employees and new recruits); Access to Information Technology (evening or weekend training to provide an introduction to information technology); Wider Opportunities Training Programme (training to get adults back to work); Open Tech Programme (improved access to training, especially for those at technician and supervisory levels); and Career Development Loans (a pilot scheme offering loans for training or vocational education courses). Some of these schemes may be small and have virtually no impact in reducing unemployment, but they assist in creating a perception that the government is doing something and has accepted some responsibility for coping with the consequences of an unemployment rate of 13.7 per cent (at April 1986).

The government has also played the numbers game in that it has acted to change the way unemployment is defined and counted. Those participating in employment or training schemes are excluded from the unemployment total, and only those who claim a benefit of some kind are counted. There has been a continual revision of the basis of measuring unemployment. Since 1982, claimants at unemployment benefit offices have been counted instead of unemployed registrants at job centres. This reduced the count by approximately 190,000. The 1983 budget enabled 162,000 men, mainly over the age of 60, to receive benefits without attending unemployment benefit offices, reducing the count by that amount. The government is criticized for each technical change but gets away with it, as the arguments mounted by the opposition are soon forgotten by the media and public.

There are also other important factors in the current acceptance of unemployment. First, it would appear that the government has had considerable success in getting across its view that UK unemployment is largely the reflection of a world problem. Although the public continue to see unemployment as the major issue facing the country, opinion polls also confirm some decoupling of the link between unemployment and government responsibility for it. Although the level and rate of increase of unemployment have been worse in the UK than in most industrial countries, voters clearly recognize that Britain's unemployment problem is not unique. Even in a sample of the unemployed, almost half blamed unemployment on the world economic recession (Economist Intelligence Unit 1982), and this point was emphasized by the Conservatives in the campaign. In an election broadcast, Sir Geoffrey Howe said that at least half the rise in unemployment since 1979 had been due to world recession, with the other half caused by conditions Britain had generated for herself.

This reflects what is perhaps another success for the present government; namely, an acceptance by the majority of citizens that Britain must sharpen its competitive edge. It obviously proved difficult for the opposition parties to convince enough voters that UK unemployment has been Mrs. Thatcher's fault and that a different government could have done better. Indeed, the unemployment issue may be of much wider significance in the general lowering of expectations as to what governments can and cannot do to solve society's problems. Mrs. Thatcher has perhaps done more than most prime ministers to weaken voters' faith in the capacity of governments to solve problems. In such a climate, some further privatization of responsibility for welfare seems possible.

There is also a greater awareness that solutions, if indeed there are any, may be found not at the level of central government but at the local level. Thus the unemployment problem, perhaps uniquely, is seen as a general societal responsibility, with all organizations – public and private – becoming involved in attempts to manage and solve the problem. Business and local government are both involved in implementing national schemes and in searching for solutions at the grass roots. There is a growing feeling that detailed analysis of local labour markets – to identify product and service opportunities – is possibly the only effective long-term solution to local unemployment problems. The problem has thus been partially decentralized.

A second factor influencing current attitudes to unemployment is that although between three million and four million people are currently unemployed, over 80 per cent of the workforce are in work. A larger number of that employed workforce will have experienced unemployment, and they may be likely to consider any previous periods of unemployment (for most people still less than one year) to be less an injustice and more a matter to be expected. Moreover, the proportion of the unemployed who suffer long-term unemployment (more than one year) remains less than half of the total (41 per cent at

April 1986) and is confined largely to the comparatively politically inarticulate, further detracting from the likelihood that the unemployed will raise the political cost of the issue for any government.

Finally, although long-term unemployment has serious consequences for workers and their families, especially in terms of decreased living standards and loss of morale, those who suffer short-term unemployment today do not suffer as much financially as they would have during the 1930s. The welfare state is in place, and we should see the proliferation of publicly funded anti-unemployment schemes as an extension of the range of welfare state provisions. Essentially, these schemes should be seen as part of the welfare net – even though they do not come under the control of traditional welfare departments. They are probably as permanent a feature of the policy landscape as support for housing and health and anti-poverty policies.

The Political Prospects

The direct responses to unemployment are rather like placebos; they have no long-term curative properties, but they perform the essential function of enabling the patient to come to terms with what may be an incurable disease. Just as the creation of the National Health Service did not solve the problem of ill-health, so the creation of an unemployment industry has not solved the problem of unemployment. In both cases, however, governmental responses have made the problems more or less acceptable.

Although unemployment was beginning to fall towards the end of 1986, the outlook for the unemployed still looks fairly grim. For example, there has been a decoupling of the link between economic growth and employment. Growth rates of even 4 per cent or 5 per cent are unlikely to herald massive increases in job opportunities; there is evidence that many firms have the capacity to generate considerable increases in output without taking on more labour. Of particular concern is the decline in employment in manufacturing; 20 per cent of manufacturing jobs were lost in 1985-1986, while service sector employment has continued to grow. (For sectoral details, see *The Financial Times*, July 24, 1986.)

Finally, one might speculate that the impact of information technology and other high tech industries will do little to reduce real levels of unemployment and may in some cases exacerbate the problem in both Britain and Western Europe. At present, European governments are trying to come to grips with the implications of apparent US and Japanese domination of the world market for information technology (Webber et al. 1986). Since 1974-1975, the trading balances of France, Britain and West Germany in information technology have all worsened. If Western Europe fails to meet this challenge, it seems certain that unemployment will stay at its present level and may even rise.

Such a scenario would guarantee unemployment a central position in the welfare state of the future. What this paper suggests is that the relative acceptance of high levels of unemployment and its consequent welfare implications have not yet presented unique political difficulties, and that the British political system has proved surprisingly adept at managing the problems. Unemployment, like poverty, seems set to become an accepted feature of modern society, however regrettable that might be.

Evidence for this view was provided by the 1987 election, which produced a Conservative majority of 102 seats. *The Economist*'s preliminary analysis of voting behaviour suggested that "the swing was geographical, and was not mainly caused by unemployment. In 1983, it was possible to trace the influence of unemployment at the constituency level. In 1987, such a pattern appears to be absent" (*The Economist*, June 20, 1987, p. 32). This is not to suggest that the 1987 Conservative victory marked the end of the political salience of unemployment. Unemployment continues to present a political problem and continues to present opportunities for social unrest (especially in the inner cities). To this extent, governments will continue to respond with new schemes and new money (Moon and Richardson 1984b). The re-elected government's emphasis on tackling inner city problems suggests that past history – which indicates that the political system has a high capacity to absorb and process new issues and to further refine policies designed to alleviate some of the effects of unemployment – is still a good guide to future behaviour.

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III
The Nature of Policy Responses to Demographic Change

Demographic Change and Social Policy: Implications and Possible Alternatives

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Writing in the December 1984 issue of *Scientific American*, Samuel H. Preston observed

> Since 1960 the elderly have fared far better than children at the hands of society. The reasons are related to shifts in the relative sizes of the groups and to changes in the American family.

Notwithstanding the risks associated with analyzing Canadian experience in light of social change in the United States, there is no question that many of the trends and shifts that prompted Preston's observation have occurred and are continuing to occur in Canada.

The purpose of this paper is to look briefly at what has happened in the social policy field in Canada in the past 10 years, especially in light of the economic environment. That will establish a context for discussing the demographic trends and socio-political forces that are shaping today's debate about social policy. Finally, I want to identify the implications of these trends and forces for the social policy agenda and suggest some alternatives for dealing with them.

The focus throughout the paper is on three groups in society – the elderly, children and women. This is not to underestimate the significance of other issues with direct implications for social policy. Immigration to Canada, for example, is a force for demographic, economic and social change that has yet to receive adequate public debate and attention by decision makers. Similarly, there is a pressing need to deal quickly and positively with the concerns of Native people in Canada.

Clearly, these two issues deserve more space than I can devote to them here. By focusing instead on women, the elderly and children, I want to identify a number of interrelated issues – all of which have their origins in the same set of demographic and social changes – and suggest how we should be addressing them. Even so, I'll probably be raising more questions than I can answer in the time available. So be it.

Where We've Been

Let us begin by examining how social programs fared in the economic turmoil of the past decade. According to a 1985 study by the Organisation for Economic Co-operation and Development (OECD), Canada spent 21.5 per cent of its gross domestic product (GDP) on social programs in 1981 (OECD 1985). This was up substantially from 12.1 per cent of GDP in 1960.*

The most significant expansion of Canada's social programs – in both absolute and relative terms – took place in the period between 1966 and 1973. Again, the OECD figures show that the rate of real growth in GDP was 5.1 per cent between 1960 and 1975, while the corresponding growth rate for deflated social expenditures was 9.3 per cent. Spending on social programs quintupled during the decade 1965-1975, while GNP tripled and overall government spending quadrupled.

Growth began to slow in the second half of the 1970s. In contrast to the earlier period, GDP grew by 3.3 per cent between 1975 and 1981. The rate of growth in social expenditures slowed considerably to 3.1 per cent. Slower economic growth and mounting deficits fueled concern about inflation and uncontrolled growth in government spending. Economists announced the end of the affluent society and predicted a prolonged period of slow growth. Some went so far as to predict major economic disruptions in the years ahead.

Even more powerful than the economic facts and figures in influencing the climate for social policy was the neo-classical economic philosophy that began to pervade the public consciousness as early as 1976. The repercussions of California's Proposition 13 in 1978 – which was the flagship of a phenomenon known as the taxpayer's revolt – were felt even in Ottawa and created substantial pressure on governments to alter their approach to public spending.

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* Includes federal, provincial and local spending on health, education, unemployment insurance and income maintenance programs. Does not include housing and community programs or tax expenditures.

At the same time, the personal attitudes and values that had developed in the 1960s – including strong individualism and a degree of self-centredness – had evolved towards the conformism and conservatism of the late 1970s and early 1980s. Self-preservation and an unwillingness to look beyond one's own day-to-day concerns translated into a weakening of the collective will to solidarity.

Governments took the economists' warnings and the public mood to heart and embarked, with varying amounts of vigour, on programs to contain, restrain, or cut spending. Most provincial governments reduced social assistance payments to individuals and families while cancelling or cutting funding for agencies and projects. In the area of social programs, these efforts had the dual effect of creating real hardships for some agencies and their clients while failing to make a significant dent in the problems they were intended to attack. This was of course because the bulk of social spending is on statutory programs with universal benefits or fixed benefit rates.

An economy with slow growth or no growth at all does not create jobs at the rate needed to accommodate everyone who wants to enter the labour force. As tough economic times deepened into recession, unemployment rates climbed to post-war highs, reaching 12 per cent before falling by a few points in mid-1986. No longer just a conjectural problem, unemployment had become structural. The level of so-called chronic unemployment, once defined as 3 or 4 per cent, is now considered 'normal' at 6 per cent, 7 per cent or even 8 per cent. The consequences for individual Canadians, for communities, and for society are only beginning to be calculated.

What happened to social spending during this period of slow economic growth, high unemployment and restrained government spending? Despite the atmosphere of belt-tightening, Canada's total social expenditures generally held their own between 1975 and 1981. They did not grow as quickly or dramatically as they had in earlier times. But their rate of growth did come close to keeping pace with that of the GDP, falling short by just a narrow margin.

In the face of considerable pressure on statutory programs like Old Age Security, Family Allowance, and even the Canada Assistance Plan, Canada managed to keep its safety net intact during the period and even did well in some areas by international standards. Canada and Sweden, for example, are the only two industrialized countries that continue to provide universal old age pensions. In other words, despite one year of reduction in the monthly Family Allowance (in 1979, following creation of the Child Tax Credit, the Family Allowance was reduced slightly and its indexation to the cost of living was frozen for a year), federal programs were all maintained, indexed, or even increased when it came to benefits for individuals. However, in many cases, provincial levels of welfare were reduced. So were projects and group initiatives at both levels of government. Even so, Canada's overall social spending remains at or slightly below the average for all OECD countries in terms of percentage of GDP.

At the same time, restraint did not spell the end of movement and change in the social policy field. During the period the federal government was able to introduce at least one innovative social policy measure, take steps to strengthen the best of what had been achieved in the past, and develop a program with long-term benefits for relatively little initial outlay.

The innovative measure was the Child Tax Credit. When Prime Minister Trudeau returned from the Bonn economic summit in August 1978 and announced across-the-board cuts totalling $2 billion, the political timing was right to propose a plan for which the homework had already been done in my department (National Health and Welfare). The Child Tax Credit is a yearly, non-taxable, fully indexed refundable benefit delivered to each child in families below a certain income level – when it was introduced the level was $18,000; now it is $25,000. The amount per child now approaches $400. This was the first time in Canada a benefit was delivered through the tax system in the form of a credit rather than an exemption or deduction.

The step to strengthen past achievements took the form of the *Canada Health Act*. As early as 1979, recession and the prevailing economic philosophy of the times created pressures that might have led to the loss of Canada's universal medicare system. The system was being subtly eroded through extra charges to patients: extra billing by doctors and the imposition of users' fees by the provinces. If this trend had gone unchecked, it would have led us back inevitably to the two-tier system where the two-thirds of the population that could afford it bought private medical insurance.

Backed by massive public support, the federal government introduced the *Canada Health Act*, which did away with extra charges and assured equal and universal access to the health care system by strengthening the rules of the game. The Act was passed unanimously by the House of Commons in April 1984.

The third example of creative social programming in tough economic times is the Indian and Inuit Health Careers Program. Launched in 1984 at the relatively modest cost of $3.1 million a year, the program helps students of Native ancestry to upgrade their education so that they can enter post-secondary training in any of the health professions – medicine, nursing, dentistry, laboratory technology and so on. The program also provides bursaries for students in post-secondary health careers training.

Created by and based on the co-operative efforts of individuals in the federal government, the post-secondary institutions, Native peoples' health associations and Indian band authorities, the program functions as a kind of brokerage, matching individual and community needs with the appropriate location and kind of training. In my view, this program will do more for the devolution of health care to Native people than many other approaches.

Demographic and Social Trends

While the deficit, unemployment, spending restraint and other economic concerns were dominating the agenda, Canadian society did not stand still. The demographic trends I want to explore fall under four headings: declining fertility, the ageing of the population, changes in the family, and the participation of women in the labour force. The facts are these:

- Fertility has declined. This is the fifteenth year that Canada's fertility rate has been below the replacement rate – the level needed to maintain our current population of 25 million. The average number of births per woman fell from 3.11 in 1968 to 1.67 in 1985 (Townson 1987).

- The population is growing older. Changes in life expectancy and patterns of fertility mean that the number of elderly Canadians is growing in absolute terms and as a percentage of the total population. From an estimated 10.7 per cent of the population in 1986, the elderly could account for 13.4 per cent in 2001 and 25.1 per cent by 2036 (Seward 1987).

- The most significant component of growth in the older population will be the dramatic rise in the number over the age of 80. There were 451,000 people in that age group in 1981; projections are that the number could reach just over a million by the year 2021 (Task Force 1984).

- The number of people aged 55 to 64 will increase slowly over the next decade but will jump sharply between 2001 and 2011, returning to a more moderate rate of increase in the decade following that (Task Force 1984).

- The definition of the Canadian family is no longer a mother, a father and their 2.1 children. People are marrying at a later age, couples are having fewer children or none at all, almost half of all marriages end in divorce, more people are choosing not to marry (Statistics Canada 1985).

- Women have become and are going to remain a significant presence in the labour market. More than half – 52.4 per cent – of all women over the age of 25 are in the workforce – up by 24.5 per cent since 1977. (The comparable number for men is 78.2 per cent, a figure that has actually declined by 3.3 per cent since 1977.) The number of married women employed outside the home has risen even more sharply – by 31.1 per cent since 1976 (Townson 1987).

Together, these trends and developments create a set of complex challenges and interrelated needs to be addressed through social policy:

- The effects of declining fertility show up in the size of the workforce, the demand for goods and services, and the nature of families.
- Population ageing makes us ask where we are going to find the resources to fund programs and services used by the elderly, particularly with respect to health care, and how to ensure that public pensions continue to be paid.
- The rate of marriage breakdown has a direct effect on the number of women and children living in poverty, while the increasing number of single people and childless couples means many Canadians will grow older without an extensive family support network.

These issues and needs converge in the 'social spending envelope'. Social expenditures cover pensions, health care, family allowances, social services, and welfare. (See Table 1 for a list of the major programs and their costs.) Jostling for priority within the social spending envelope, then, are the three groups I referred to earlier – children, the elderly, and women.

Social spending fulfils several purposes, but two seem to me to be of fundamental importance. First, our social spending programs are meant to protect people when personal crisis in their lives creates economic distress. In a broader sense this purpose extends to decreasing poverty in both absolute and relative terms.

Poverty rates declined in Canada until 1981 or 1982 – the worst years of the recession. In absolute terms, the poverty rate is said to have fallen from just over 20 per cent to 15 per cent by the end of the 1970s. But since then, it has increased again to some 16 per cent (National Council of Welfare 1987). Relative poverty has not changed, however, in that the bottom 20 per cent of the population still lives on 5 per cent of the overall income of the population, while the top 20 per cent enjoy a 40 per cent share. There is no doubt that poverty has again been on the increase since the beginning of this decade, as

Table 1
Estimated Value of Federal Social Security Programs, 1984-1985

	Billions of dollars
Old Age Security (universal pensions)	8.3
Guaranteed Income Supplement and Spouse's Allowance (pension supplements)	3.1
Veterans' Pensions	0.7
Age-related Tax Exemption	0.3
Family Allowance	2.4
Child Tax Credit	1.1
Tax Exemption for Dependent Children	0.9
Tax Exemption for Dependent Spouse	1.4
Child Care Expense Tax Deduction	0.1
Federal Share of Canada Assistance Plan (welfare and social services)	4.1
Social Housing Programs	1.1
Private Pension Tax Deduction	0.1
Unemployment Insurance	11.6

Source: Royal Commission on the Economic Union and Development Prospects for Canada (1985), Volume II, p. 772.

recession and unemployment have taken their toll. By 1984, for example, the number of Canadians living below the poverty line had reached 4,349,000 – up by more than 874,000 in only four years.

Second, in Canada, social spending expresses a kind of 'social contract' describing the political culture of our country. Our universal social programs have become the emblem of our understanding that we have a long history of government intervention in these areas, that we approve of it, and that the Canadian national government, whatever its political tag, is expected to maintain a left-of-centre policy on social spending.

As demographic trends are changing the shape of Canadian society, socio-political developments are altering the terms of the debate about social policy. One of them is the women's movement of the mid-1960s. It is here to stay, because its tenets appeal – at least in Canada – to the majority of women, and it has been successful in getting governments to respond to many of its concerns in the past 15 years. In Canada, most women's organizations have become more or less feminist, and the women's movement has developed quite a large base. The movement also has a future because its long-term objectives, besides simple justice, have to do with the quality of life. This translates into a long and complex agenda for action – not just a few legal changes, no matter how important. Upheaval and controversy within the movement and backlash outside are normal phenomena; they signal evolution and change – not the end of anything – provided the movement keeps its large constituency by pursuing issues of interest to a majority of women.

Canadians over the age of 65 have also become a force to be reckoned with. They receive the benefit of the largest block of direct expenditures by the federal government on payments to individuals – almost three times the amount directed to children. In the past 15 years, despite economic conditions, senior citizens have seen their financial situation improve through increases in benefit rates, indexation of benefits, and adjustments in public pension programs. Politically, it has been relatively easy to mobilize public opinion and resources in favour of programs for the elderly, even in tough economic times. Senior citizens have recognized this political reality through a network of associations and capitalized on it, maximizing their political clout.

The powerless group is the one composed of children. Children have no voice where decisions concerning them are made. This was evident most recently in a battle pitting pensioners against children when the present government announced the partial de-indexation of old age pensions and family allowances in May 1985. Need I remind readers of the outcome of that confrontation: pensioners won and children lost. The 1960s were years of children; not so the 1970s or the

1980s. The one powerful voice that used to represent children – women's groups – has shifted towards promoting the many other roles of women, according relatively lower priority, or no priority at all, to the role of mother. There is a real vacuum when it comes to defending the interests of children, despite worthwhile individual efforts. The politics of policy making requires a constituency and a voice to mobilize resources in times of scarcity. At present children have neither.

The Implications and the Alternatives

With those thoughts about the relative power of various groups in society established, let me return to the social policy implications I mentioned earlier. Whether we are listening to those groups of Canadians identify their needs and priorities or conducting our own dispassionate analysis, there are some inescapable conclusions about the kinds of issues we face in the remainder of this century and the beginning of the next.

The Elderly

Canadian seniors have demonstrated the importance they attach to income security and have been largely successful in maintaining and even improving their financial situation in the past decade.

As the baby boomers approach retirement age, income security will once again become an issue. We have to plan for this eventuality so as to ensure that public pensions can continue to be paid. This issue has been the subject of much speculation but not much informed public discussion in the past 10 years. It seems clear that those active in the workforce will be able to contribute as they have always done to the pensions paid to retired Canadians for the next 30 or 35 years, but what will happen to the younger members of the baby boom generation (those born between 1953 and 1959) is not so apparent.

In this vein, the Canada Pension Plan (CPP) has just been amended (for the first time since it was introduced in 1966) so that contributions will rise each year, beginning 1 January 1987, according to a 25-year schedule, with progress reviewed every 5 years. This was an essential step, but the CPP is a contributory, not a universal plan – one has to be in the workforce and meet certain other requirements to qualify for it.

Housing is a second area of concern. Public housing became very popular in the 1960s, and a good stock of units was developed, mostly in apartment buildings. Today, despite waiting lists of up to two years, construction is down sharply. Moreover, there is a shortage of appropriate accommodation – and by that I mean housing on a smaller, more human scale; housing that offers a safe, secure, stimulating environment; housing that is integrated with the community—close to shops and services so that seniors aren't warehoused or ghettoized; housing that is supported, if need be, with homemaking and meal services.

There is another reason for remedying the current shortage of these community support services, which are not by any means available to all older Canadians. Much has been written about how the ageing of the population will affect the use of hospitals and medical services, particularly as greater longevity increases the number of 'old old'—those age 80 and over.

Health: a need for redirection was the title of one such study, conducted on behalf of the Canadian Medical Association in 1984. The population projections prepared for the study predicted that the largest increases in the use of facilities and services by the elderly would be in long-term care institutions and home care services, with a smaller increase in the use of physicians' services.

The study says that 118,000 additional hospital beds and 276,000 long-term care beds will be needed by the year 2021 (Task Force, 1984). About half the increase would become necessary by 2001, a short time indeed for policy planning and development. In 1981 dollars, and excluding capital expenditures, today's expenditures on health care by all governments will increase by 75 per cent, from $18.5 billion to more than $32 billion. New construction would inject additional capital costs if, in the words of the study, "current patterns of providing care remain unchanged."

This is the nub of the matter. Whether we are talking about providing services for the elderly or controlling the cost of health care generally, our perception of what health care is and how it should be delivered is the principal determinant of how much the system is going to cost.

As far as the elderly are concerned, we tend to treat ageing as a disease rather than a normal stage through which human beings progress. This leads to talk of beds and facilities and long-term care. Among industrialized countries, Canada's rate of institutionalizing the elderly is one of the highest—it is about twice that of both the United Kingdom and the United States, for example, despite the proportionately larger senior population in the UK and the roughly comparable population in the United States.

The fact is that many Canadians in nursing homes and long-term care are there not because they need such a high level of care but because they cannot continue to live safely and securely without some kind of support—and that support simply isn't available. Estimates are that at least 10 per cent of older people now in hospital could be discharged if there were adequate community support services to assist them. Studies also show that the cost of providing home care is as low as 15 per cent of the cost of caring for someone in an institution (Novak 1985).

To sum up these observations about the social policy implications of an ageing population, it seems clear to me that as long as we are able to hold the income security ground we have won, the principal concern will be to create an environment in which people can 'age in place' – meaning that they have the services and programs they need to live as independently, as fully and as long as possible in the community, preferably in their own homes.

Children

When it comes to children, poverty is the problem that looms larger than any other. This has partly to do with unemployment, the state of the economy, and the financial situation of families generally, but it also arises from changes in the divorce rate and in the number of single-parent families with limited resources.

The social policy issues relating to children fall into two groups: those that touch the lives and future of children themselves, and those arising from the consequences of the number of children being born for the future of society as a whole.

According to the National Council of Welfare (1987), 1.1 million Canadian children lived in low-income families in 1985. One child in five is poor. Children make up more than a quarter of all poor Canadians. As children get older they face restricted opportunities for meaningful employment and the prospect of continuing to be trapped in the cycle of poverty. Poverty is thus the single most urgent issue affecting the well-being – and the future – of children in Canada.

When the final vote was taken in the House of Commons in June 1984, Canadians were proud that we had at long last built a public pension system where anyone age 65 and over is assured of an income just above the poverty line. What do we intend to do for our children? We are convinced, and like to say, that every child is born with an equal chance to become the best he or she can be, but in reality, nothing is farther from the truth. A central priority for Canada's social policy must therefore be to channel more income into households where there are children in need.

Fertility is the other issue affecting the future of children and the society in which they will make their way as they become adults. If fertility rates remain at present low levels – at or below the replacement rate – children may take on new political significance because of their importance in sustaining and expanding the market for Canadian goods and services in the future.

Policy makers facing the prospect of an ageing society with low fertility rates and insufficient immigration to make up the difference may be tempted to consider a policy aimed at encouraging families to have more children. Governments know only too well, however, how delicate an issue this could be. The women's movement would be only the first of many to voice loud concerns.

All governments can do as a minimum is try to ensure that the tax system does not penalize families with children and that services related to child care exist at reasonable cost. In the same way, childbearing should not penalize women in paid employment, either financially or in terms of career advancement. Until we identify more accurately just what influences the rise and fall of fertility rates, the only avenue for action is to set up structures to support families raising children.

Women

If we look at how demographic change is affecting women's lives, it quickly becomes clear that many of the demographic trends and social policy questions we have been discussing intersect in issues of particular concern to women:

- If falling fertility rates are causing concern, women are involved.
- A rising divorce rate has translated into more women raising children alone and in poverty.
- The ageing of the population has implications for women because they live longer than men and are more likely than men to see a drop in economic status when they reach retirement age or when death or divorce separates them from their husbands. Women can expect to outlive their husbands by an average of 12 to 14 years and are less likely to remarry if widowed (Rosenthal 1985). Increasingly in Canada, to be old, poor and living alone is to be a woman.
- Increased life expectancy and labour force participation, as well as economic conditions generally, are creating a double bind for many women in their middle years: they are managing a home and a job while caring for ageing parents and supporting children in their late teens or early twenties who have returned or never left home because they can't find work.

It is difficult to establish the exact nature of the relationship between the demographic trends we have been talking about — declining fertility, changes in the family, and increased participation by women in the labour force. The results are clear, of course: two-thirds of single-parent households are poor, and the majority of those households are headed by women. A third of all women between the ages 65 and 74 live alone, and more than half of them are poor.

Less clear are the reasons for changes in divorce, fertility, and labour force participation rates and how they influence each other. Social policy, economic and employment policy, and tax policy should be based on solid research into these phenomena. At present this is not always the case. Economic studies of the labour force, for example, tend to underestimate the strength and durability of women's participation and have not explained the reasons for it particularly well either.

It is not an accident that women are in the labour force and it is not a temporary phenomenon – they are here to stay. This raises a number of issues that governments are beginning to address with varying degrees of enthusiasm and commitment – equal pay for work of equal value, affirmative action, training for entering or re-entering the labour force, reform of private pensions, making part-time work a more acceptable option in terms of job security and benefits.

A somewhat more basic need in social policy terms is the network of programs and services that support women's participation in the workforce. Accessible, high-quality child care, maternity arrangements that do not impede career progress or impose financial penalties, parental leave to fulfil family responsibilities – Canada is a long way from resolving any of these issues satisfactorily. The fact that women's labour force participation has continued to increase, even without these supports, does not suggest that women's attachment to the workforce is by any means temporary or frivolous.

Setting up these supports, and promoting justice and equal opportunities in the workplace, have a cost attached – costs that have been questioned in a way never applied to benefits for children and the elderly. It is therefore not surprising that reform has stalled when the price tag grew; child care, pension reform, equal pay for work of equal value – all have foundered on the question of who is going to pay and where the money is going to come from.

As if that agenda were not challenge enough, there is a new set of socio-economic issues on the horizon. Greater liberalization of trade with the United States could have serious adverse consequences for female workers because of their strong presence in vulnerable sectors like textiles and light manufacturing. The so-called free trade negotiations will probably include, at the request of the United States, the service sector of the economy, which employs 80 per cent of all women workers in Canada (Townson 1987). Free trade in services would surely threaten jobs for Canadian women. The differences in political culture and Canada's safety net, the size and geographic distribution of Canada's population, with all the obstacles to mobility that entails, and language constraints are but a few of the impediments to 'pure' market competition, with Canadian women among the likely losers.

Given that a majority of women, including married women, will continue to be active in the workforce, shifts in occupational demand, technological change, and decline in the rate of labour force growth could also have enormous consequences for women. Projected sectoral shifts in the demand for labour may create more jobs in the resource sector, non-residential construction, capital goods manufacturing and high technology (including communications, information and business services). If that occurs, young women entering the labour market for the first time or women re-entering later in their lives may have difficulty landing these jobs unless current patterns of education and training change dramatically.

Some commentators have suggested – and many women share the view – that part-time work offers a way of accommodating child rearing and paid employment. Part-time work presents both advantages and the potential for exploiting workers. Certainly part-time work, with adequate employment benefits, should be an option for people who want it. But part-time work means part-time wages and few, if any, benefits or job security at present; it is not at all clear that women (and men, for that matter) who work part-time do so because they prefer to, rather than because they cannot find full-time work. Twenty-eight per cent of women surveyed by Statistics Canada in 1985 who were working part-time said it was because they couldn't find full-time work, whereas 12.5 per cent gave personal or family responsibilities as the reason (Townson 1987).

The electronic cottage – with each of us producing work at a terminal in our homes wired to an employer's central computer – has also been touted as a solution for women with children. This is simply unacceptable, because it fails to acknowledge any societal or parental obligation to share in the responsibility of child rearing except that of women – quite apart from the fact that it would be no easier to care for children while doing paid work (and probably piece work, at that) in the home than it would be to take them to the office or the factory and care for them there. In addition, mothers working at home would be deprived of all-important interaction and networking with other adult workers. Men have no more cause to welcome the idea; it sounds plausible and even enjoyable until you realize that many of the costs of doing business, including rent, heat, and utilities, would be shifted from the employer to the employee – with no assurance that you would even continue to be an employee with a salary, wages or benefits. The result could easily be social isolation in a sweatshop environment with few of the benefits or satisfactions of most work situations today.

In short, two observations: first, women – particularly married women and mothers – are in the labour market and are there to stay. Some surveys have attempted to show that they are there only for the luxuries a second salary can buy, but the truth is that most are there for the economic well-being of their families and for the personal satisfaction and economic autonomy work can bring.

Second, women are done a great injustice by the attitude that their situation has already changed for the better. Working mothers in particular are faced with the myth that they can work hard and be promoted on a equal footing and, by being well organized, manage a home and family at the same time. This is a dangerous myth. Sharing of household responsibilities may become more common, but millions of working mothers handling the double role still have ultimate responsibility for their children. Acknowledging this fact, child care services must become a social policy priority.

Health Care Consumers

I want to raise a fourth category among the implications of demographic change for social policy. The health care system is another place where demographic trends collide. The frail elderly are finding few alternatives to long-term hospitalization, as well as inadequate rehabilitation and other services, women are expressing dissatisfaction with how the health care system meets their needs, and there is concern generally about the cost of continuing to provide services based on traditional concepts of how to deliver medical and hospital care.

A growing number of health professionals and economists insist that providing more money to the health care sector as now designed will simply expand an unsatisfactory system – a curative system oriented to diagnosing and treating illness instead of a reformed system based on preventing disease and promoting health.

The publication of *New Perspectives for the Health of Canadians* by the Department of National Health and Welfare in 1975 gave the reformers hope about a new direction. Although some accomplishments are evident – greater awareness, for example, of the benefits of fitness and proper nutrition, with governments participating through anti-smoking campaigns and legislation making the use of seat belts compulsory – the spirit of the reforms has not carried through to the health care system itself.

Little has been done to look for alternatives to long-term hospitalization of the elderly, to provide rehabilitation services for the elderly after release from hospital, to develop inexpensive preventive and self-help programs, to make more rational use of medical personnel in delivering health care. Cabinet ministers are told there are long-term savings in pursuing the goal of preventing disease rather than treating it after it occurs, but the reality is that health promotion and illness prevention programs are viewed not as alternatives but as add-ons to an already long list of demands for additional health care funds.

Clearly, women and the elderly could be powerful constituencies for change in the health system, though I have not yet seen much evidence of alliances being formed between them and the system's reformers. What is clear is that in times of scarce and competing resources, it will not be easy to reorient the health system without strong demands from a public that is still, for better or worse, profoundly ambiguous towards the technological and scientific medicine of the curative health system on the one hand and, on the other, the alternative and 'soft' medicines addressing the whole person.

The Priorities

Regardless of what senior decision makers say about the need to cut budgets and control the deficit, the various clienteles are going to continue to identify needs and draw up long – albeit realistic – lists of vital programs and services.

- Families want day care and child care at school and trained babysitters at home; home care and meals on wheels for the elderly, along with nutrition and fitness classes; adoptive grandparent programs for single-parent families; and pre-natal allowances and special care.
- Volunteers want to be able to deduct their expenses or claim exemptions at tax time.
- Women want equal pay for work of equal value, training and skills upgrading on re-entering the labour market, pensions for homemakers and for all women in paid employment.
- Young people want job experiences and training allowances to help them compete for high-tech jobs.
- People want to see the soft medicines like acupuncture and chiropractic become part of the health insurance system; they want both high-tech medicine and community clinics; the choice between a doctor or a midwife to attend a birth.

The list, in other words, is almost endless. No matter how desirable the project, however, or how urgent the reform, today's answer is more often "We can't afford it". 'Targeting' and 'helping those most in need' are the watchwords of the day.

What, then, should our priorities be? Keeping in mind that the role of government – not just politics – is to find a balance between the various groups in society, and also taking into account the division of labour among federal government departments, the following is what I believe should be the focus for each group of clients we have been discussing:

Children. Poverty is unacceptable because of its affects on children now and on our society as a whole in the future. We cannot continue to tolerate a situation where one Canadian child in five lives below the poverty line. Although children are not economic entities and depend on families for their well-being – and notwithstanding the overriding need for full-employment policies – Canada should introduce an income support program as soon as possible, a program that is equitable and guarantees that children (through their families) receive basic income support on a regular basis.

The elderly. As long as public pensions are not eroded by administrative or legislative change and remain a basic guarantee against gross poverty, the most urgent need for Canadian seniors is homemaking services covering the whole spectrum of needs related to enabling seniors to remain in their own apartments or houses. I am not saying that services should be free for everyone, but they should be universally available and affordable – and free or priced according to means for those with little income. Because the market has not deemed it convenient or profitable to initiate these services, governments should take the appropriate steps to introduce such services, which, by the way, are labour-intensive.

Women. Despite the length of the list of steps that must be taken to achieve simple justice and more equal opportunities, it is difficult to state just what the priorities on a national agenda for women should be. It would also be unfair, however, to use possible divisions in that constituency as an excuse for inaction or to adopt a wait-and-see attitude.

In the final analysis, society continues to assign women responsibility for the care of children. As long as that remains the case, from a purely pragmatic point of view I have to recommend that the most urgent priority is the range of services and programs that support the needs of women in their role as mothers. Child care has become the symbol of these needs.

At the same time, it is quite artificial to distinguish between social policies and employment policies in talking about the needs of women. Private pensions and equal pay come immediately to mind in the employment area.

Health consumers. Our health care system is over-specialized and our approach to health is over-medicalized, at the expense of a more holistic approach. People are treated as medical problems rather than whole persons, and they are deprived of responsibility so that they are no longer active participants in achieving their own well-being. Doctors are remunerated for their services, no matter what the output – that is, the health status of their patients. This suggests an urgent need to reorient the health care system in a fundamental and challenging way. This means greater emphasis on illness prevention and health promotion; smaller health care institutions that are more flexible, less costly; more team-oriented approaches to organizing the work of health professionals; incentives for hospitals and clinics to deliver services in the most effective and economical way; a review of the concept of fee-for-service payments to physicians. Needless to say, reorienting the health care system will be much more difficult than saving medicare, but it is nonetheless a priority.

The Alternatives

So we arrive at the inevitable question: What can be done? The needs and priorities identified and presented to government by the various constituencies, many of which we can all support, add up to an enlightened but costly social policy agenda. Inside government circles, the forces of neo-conservatism are totting up that cost and asking where the money is going to come from – indeed, they are arguing that we cannot even afford to continue existing programs at current levels without endangering our economy. What are the prospects for change, given the economic climate, spending constraints, and competing priorities?

There are some possibilities for restructuring social spending to accommodate the priorities I have identified in a period of economic uncertainties and demographic change. Before discussing the proposals for more comprehensive reform, I want to look at two limited, but immediately accessible, avenues of change.

Limited tax reform to place more income in the hands of low-income families with children is a priority that can be addressed immediately, without waiting for overall tax reform proposals to be debated and decided. The tax system contains a number of provisions that are inequitable in social policy terms and for the low-income households to which so many children belong. The tax exemption for dependent children favours upper-income taxpayers and delivers the least benefit to poor Canadians. This is because a family has to have an income above a certain level before it can benefit from the exemption, and the higher the income bracket the more the exemption is worth to a taxpayer.

According to the federal Department of Finance, the exemption represented forgone revenue of $1.175 billion in 1985 – an important sum of money in Canadian terms for social spending. For social justice, and to increase the equity and effectiveness of social policy, that money should immediately be reallocated to the Child Tax Credit and directed specifically to people at or below the poverty line. As a tax credit, eligibility would diminish as household income climbed.

Still focusing on an isolated element of social spending, let me consider a second option related to the explosive issue of universality. It is a fact that the universality of Old Age Security and of the Family Allowance could be done away with under certain conditions – and only under those conditions – for it expresses a social contract more than it does a principle. In the Family Allowance program, for example, the principle involved is the state's shared responsibility for children. However, such responsibility can be achieved through many different programs. Right now, it seems embodied in the Family Allowance, and universality could not be discussed or tampered with for fear of losing everything because of the economic climate and recession. Only in the health care system does universality clearly represent a principle – and surely it is also a pragmatic, sound and efficient way of delivering services to Canadians. Moreover, Canadians decided, more than 25 years ago, that health care would no longer be a market commodity but part of the common good.

However, no government can alter a social contract lightly or easily. The problem in doing away with universal benefits for seniors or mothers who 'don't need them' is one of Canadians' trust and the government's credibility. I think it is fair to say that Canadians, as well as the ministers of the so-called 'unproductive' departments like Health and Welfare, suspect or know that the money taken away from families, for example – often and in the main the members of the middle class – will be applied to reducing the deficit, absorbed elsewhere in the system, or used to finance new, hazy, temporary job creation programs over which there is no monitoring or control. In other words, it will be lost to the clientele it was meant for. In the case of seniors, a clearly identifiable positive trade-off is even less easy to define and to equate with advantageous social policies, unless the pension monies recuperated were to be the basis of a new and needed program for the elderly, such as homemaking services. Selectivity would deprive middle-class families of billions of dollars, which would be moved from the social envelope to the economic envelope with no guarantee whatsoever of a good trade-off, that is, that new or different benefits for Canadian families would replace a universal Family Allowance. Selectivity would also be destabilizing for individuals and families on fixed incomes who have already planned their budgets with universal pension and family allowance benefits in mind. To date, I have seen no proposal worth the move to selectivity.

The more comprehensive approaches to restructuring social spending include proposals such as that advanced by the Royal Commission on the Economic Union (the Macdonald Commission) and comprehensive tax reform that Finance Minister Wilson is about to introduce.

The Macdonald Commission proposal for a Universal Income Security Program (UISP) is essentially a variation of an older concept – the guaranteed annual income. It is an income supplementation program that would replace some, if not all, existing transfer and tax measures directing money benefits to Canadians. As the Commission recognized, such a move would accompany freer trade with the United States and would constitute major surgery on the Canadian economy. It would also require broad political consensus and would have to be structured in such a way that the stability of incomes would be preserved during the transition period.

The problem with guaranteed income proposals like the UISP is that, because the *cause* of poverty no longer matters, they must include *two* target groups: people who are unable to work or find employment *and* people who need a supplement because their incomes from work are inadequate. The working poor population is as large a group as the poor receiving welfare assistance. But under the present system, they are excluded from financial and in-kind benefits, for 'minimal earnings' are not an official cause of poverty – except for limited programs in Quebec, Manitoba and Saskatchewan. A proposal that offers benefits high enough to result in satisfactory income levels thus becomes very expensive, because a much larger population must be covered. If spending is to remain within current limits – and no change is made in the universality of benefits for seniors and families – then proposals like Macdonald's UISP are bound to offer benefits that are just too low. I also think that the Macdonald Commission proposals betray a double standard with respect to the treatment of seniors and children – which I clearly find unacceptable.

In evaluating this and similar proposals for negative income tax, several questions are pertinent. What is the level of support offered to those unable to work or to find employment and to the working poor? Is that level higher than the total of what these same people now receive through Family Allowance, the Child Tax Credit, other tax benefits and social assistance? Is it much higher – high enough to justify changing the system? What provision is made for the working poor: are they in or are they out? Are we ready to envisage measures for intervening in the labour market? Can we develop an employment strategy?

As for the fourth avenue for restructuring social spending – comprehensive tax reform – I would suggest that several principles should apply. The discussion here remains theoretical, for no proposal has been put to the public for discussion. As with evaluating UISP or other guaranteed income schemes, there is the question of who will benefit, and in what degree, and what kinds of shifts in the tax burden will occur. The middle class, who have often felt overlooked in much of the current debate about social policy, should not feel threatened or deprived; at the same time, the reform must lead to greater equity and result in a degree of redistribution. Finally, I would like to ask why tax reform is being debated now – is it viewed as an alternative to UISP because someone has determined that UISP is a dead issue, or is it fundamentally different from UISP and a new departure in social policy terms for Canadians?

But what can be done? This seems the only reaction decision makers can give when confronted, on one hand, with the lists of needs identified by the various constituencies and, on the other, with the state of the economy. And they have a point: it was much easier (and more fun) to devise social policies in the affluent years, when there was still lots of money around, than it is now, after we have lived through a recession and are still faced with economic disruption and slow growth. I believe, nevertheless, that it should still be possible to identify priorities and, at the very least (pending the introduction of a comprehensive income support program), to review every individual tax exemption and change it to a refundable tax credit directed to those in need. This would introduce more equity and more justice in the indirect expenditures budget, the unknown one – the tax system – which so often seems to exist only to undo what the direct expenditures budget is trying to achieve.

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Demographic Change, the Canadian Economy and the Role of Immigration

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Introduction

Demographic factors play a key role in the broader Canadian socio-economic context. The rate of growth and the structure of the population influence the size and composition of the labour force and the overall productive capacity of the economy. The ageing of the population and the labour force has far-reaching implications for the cost and nature of social programs and the ability of the economy to adjust to change. And, the volume and source of immigration flows alter not only economic variables such as the growth and skill composition of the labour force, but also the ethnic and cultural fabric of society.

The purpose of this paper is to consider the implications of demographic change for the Canadian economy and for public policy. The discussion concentrates on the ageing of the population and the labour force. A special focus is the role of immigration as an instrument for dealing with demographic change and, indeed, as a tool for economic growth. In addressing these issues, we have strayed beyond the traditional boundaries of social policy or social welfare

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This paper is an expansion of comments originally made by the author as a discussant of the Honourable Monique Bégin's paper entitled "Demographic Change and Social Policy: Implications and Possible Alternatives" (elsewhere in this volume). It is based, in part, on two related studies by the same author: Seward (1987a) and Seward (1987b).

systems, into broader concerns that are generally considered part of economic and labour market policy. We adopted this approach in the belief that any debate on the future of social welfare systems must be placed in the context of broader socio-economic-demographic interrelationships.

Part One sets the stage for a discussion of these relationships by briefly describing some of the current and future challenges facing the Canadian economy and the importance of demographic change in this context. Part Two reviews major recent demographic trends, with particular emphasis on emerging developments over the past decade. Part Three endeavours to project these demographic trends over the next several decades, with likely scenarios to the end of the century.

Part Four assesses the implications of recent and projected demographic changes for the economy and for public policy in the late 1980s and the 1990s, particularly the potential adjustment problems associated with a labour force that is growing more slowly and ageing, as well as the effects of population ageing on the demand for public expenditure. Part Five assesses the role immigration has played, and might continue to play in the future, in overcoming some of the potential problems associated with demographic change. The concluding section of the paper stresses the importance of economic-social-demographic interrelationships, and reinforces the need for a broader approach to social policy reform.

1. Demographic-Economic-Social Interrelations: The Canadian Context

Over the past decade, the Canadian economy has been characterized by declining growth in productivity, rising unemployment, and falling standards of living. While some improvements have occurred since the 1981-1982 recession, productivity growth remains minimal, and unemployment – particularly for young adults – remains high. Underlying these macro-level indicators of economic performance are a number of structural changes at the regional and industrial level, including the decline in resource-producing and agricultural industries and regions as prices for primary commodities such as oil, gas and grain have fallen; the rapid pace of technological change, which has resulted, in certain manufacturing industries, in large capital investments that increase productivity but have relatively little impact on employment; and the growing importance of the service sector of the economy (Economic Council of Canada 1986).

At the same time, the 1970s and 1980s have witnessed the increasing integration and interdependence of the global economy, characterized by higher levels of trade and a more complex range of trading relations; accelerated technology transfer; and substantially greater international capital flows. To an increasing extent, domestic economic growth has become linked with international competitiveness.

These stresses on the Canadian economy have been accompanied by major demographic changes. Particularly important are the maturing of the large and relatively well-educated baby boom generation, which has now reached labour force age; declining fertility since the early 1960s, which first slowed the rate of growth of the population and is now affecting that of the labour force; the gradual ageing of the population, along with a growing proportion of the elderly who are dependent on publicly provided income and services; and major fluctuations in gross immigration levels, which were relatively high in the open-door policy years of the 1950s and 1960s and much lower in the first half of the 1980s.

The relationships between these demographic and economic trends are complex. However, the implications of demographic change for the economy are potentially very significant, particularly in terms of the economy's capacity to be competitive and productive. To what extent will the ageing Canadian labour force be able to adjust in a changing economic environment? Will the costs of adjustment be prohibitive, particularly since governments are also likely to be faced with an increasing burden in providing social programs such as health care and pensions to a growing population of elderly people? And what role can immigration play in alleviating these problems? We endeavour to address these questions below.

2. Recent Demographic Trends

Over the past 30 years, the annual rate of population growth has declined steadily, from 3 per cent in 1957 at the height of the baby boom, to less than 1 per cent in 1984. The most striking demographic trend in recent decades was the dramatic increase in fertility levels that began in the late 1940s and subsided in the mid-1960s. The result was the emergence of the big generation, or the baby boom generation, which includes individuals born between 1947 and 1966; the peak of the boom occurred in 1961. In the early 1960s, however, fertility rates began to decline very rapidly; during the past decade, they have continued to decline at a slower rate. By 1985, the total fertility rate was less than 1.7 children per woman, considerably below the replacement level (Seward 1987a).

At the same time, there has been substantial variation in annual gross immigration flows. The post-war period saw an upsurge of immigration. During the period of rapid economic growth in the 1950s and 1960s, an average of 130,000 immigrants entered Canada each year, with wide fluctuations reflecting economic conditions in

Canada and the countries of origin, as well as the 'tap-on, tap-off' approach to Canadian policy on immigration levels, which based decisions on short-term labour force considerations. By 1974, gross immigration had reached almost 220,000. At that point, immigration policy became much more restrictive. This policy stance, together with recessionary conditions in the late 1970s and early 1980s, resulted in declining gross immigration, from approximately 150,000 in 1976 to just over 84,000 in 1985 (Seward 1987b).

These demographic trends have had a major impact on the size and rate of growth of the labour force over the past decade (Foot 1987b, Table 2). Between 1975 and 1980, the labour force grew at an average rate of 3 per cent per annum. Two-thirds of this growth was attributable to source population (domestic and net immigration) growth and one-third to increases in participation rates. It is interesting to note that while the average annual rate of growth in participation of the total population was 1 per cent over this period, participation by women grew by 2.6 per cent, while participation by men showed no growth at all.

The period 1980-1985 saw a decline in the rate of average annual labour force growth to 1.8 per cent, significantly lower than the 3 per cent rate during the latter half of the 1970s. This decline resulted from a slowdown in the rate of growth in the source population to 1.4 per cent, mainly because of the much smaller cohorts following the baby boom generation into the labour force. An additional factor was the slower growth of participation rates, from an average of 1 per cent annually between 1975 and 1980 to 0.3 per cent during the period 1980-1985. This decline in the growth of participation rates was caused, at least in part, by the economic recession of the early 1980s. Once again, it is interesting to note that the average annual growth in participation rates for women (1.5 per cent) was significantly higher than that for men (-0.4 per cent).

These trends in growth rates have significantly affected the composition of the population and the labour force. The Canadian population has been ageing gradually in recent decades. The proportion of the population under the age of 20 declined from a peak of 42.1 per cent in 1966 to 28.9 per cent by 1986. On the other hand, the proportion of the population over 65 increased from 7.7 per cent in 1966 to 10.7 per cent in 1986. As a result, the young dependency ratio (defined here as the population under age 20 as a proportion of the population aged 20 to 64) declined significantly over this period, from .84 to .48; at the same time, the old dependency ratio (the population aged 65 and over as a proportion of the population aged 20 to 64) increased slightly, from .15 to .18. Thus, the increase in the old dependency ratio was more than offset – at least numerically – by the decline in the young dependency ratio, and the total dependency ratio fell from 1.99 in 1966 to 1.65 in 1986 (Denton and Spencer 1987a, Table 1). The implications of these dependency ratios, especially when projected into the future, will be considered later in this paper.

The ageing of the population has had a direct effect on the age structure of the labour force in the past 10 years. By 1975, the leading majority of the baby boom generation had entered the labour force, resulting in rapid growth of the two younger age groups (15 to 24 years and 25 to 34 years) over the period 1975-1980. By the early 1980s, however, the majority of these youth had matured into young adults, and the post-baby boom cohorts entering the labour market were much smaller. Therefore, the most rapid growth of the labour force over the period 1980-1985 was in the older groups – those aged 25 to 34 and, especially, 35 to 44 (Foot 1987b, Table 3).

3. Future Demographic Trends

A wide range of projections of the future population and labour force has been developed by federal government departments, especially Statistics Canada, and by individual researchers and academics. For example, Denton and Spencer (1987a, b) prepared projections using several scenarios or different sets of assumptions regarding future fertility, mortality and net immigration levels. For purposes of illustration, references in this paper are to the projection incorporating 'medium' assumptions. In this projection, the total fertility rate remains at 1.7 throughout the projection period; net immigration is 50,000 per year; and mortality rates continue to decline (for most age-sex groups) until the year 2031, but at a decelerating rate.

On the basis of these assumptions, the demographic trends projected over the coming decades will follow the patterns established in the 1970s and 1980s. The overall rate of population and labour force growth will decline steadily; the proportion of the population under the age of 20 will fall; and the proportion age 65 and over will rise, from an estimated 10.7 per cent in 1986 to 13.4 per cent in 2001 and 25.1 per cent by 2036.

What are the implications of these trends for population-based dependency ratios? The old dependency ratio (defined above) continues to rise over the entire projection period, while the young dependency ratio falls, at least until 2016. The total dependency ratio falls until 2011, after which it rises. But even at its peak in 2036, the total dependency ratio of 1.83 is lower than the level of almost 2.00 that prevailed in the 1960s.

Using the same medium assumptions projection, and assuming that labour force participation rates follow the trends of recent decades (i.e., female rates continue to rise and rates for older males continue to decline), Denton and Spencer (1987a, b) project that the decline in the rate of growth of the labour force that began in the 1980s continues for several decades and actually becomes negative in 2016. The total dependency ratio (defined here as the ratio of the total population to the labour force) declines from 1.98 to 1.89 between 1986 and 2001, after which it begins to rise.

Clearly, these projections based on medium assumptions represent only one possible scenario for the future. Denton and Spencer explored other sets of possible assumptions, but with the possible exception of the 'high fertility' projection (in which the total fertility rate is assumed to rise in equal annual increments from 1.7 to 3.0 births per woman by 1996, remaining at that level thereafter), the general population and labour force patterns are broadly similar to those described for the medium assumptions projection. It is difficult to have confidence in projections over several decades into the future, but shorter time frames permit more realistic scenarios. At least until the end of the century, it is likely that the population and labour force will age gradually; the rate of growth of the population and the labour force will decline (although both will remain positive); and whereas the total population and labour force dependency ratios will decline, population dependency ratios will increase for the elderly population and decrease for the young.

4. The Implications of Population Ageing for the Canadian Economy and Public Policy

In this section, we focus on the implications of these demographic trends to the end of the century by exploring two concerns: the capacity of the labour force to adapt in a changing economy and the burdens that will be placed on governments to provide programs such as pensions and health care to an increasing population of elderly people.

Labour Market Flexibility and Adaptability

A labour force that is growing more slowly will mean fewer young labour market entrants in the late 1980s and the 1990s. In 1980, there were over 3 million youth in the Canadian labour market, representing more than one-quarter of the labour force. By 1985, their share had dropped to 22.6 per cent. By the end of the century, given current participation rates, their share might fall to 17 per cent (Foot 1987b). This decline in the relative number of young labour market entrants could lead to a labour force that is less flexible and mobile from a geographical, occupational and industrial perspective.

> These persons are presumed to be the most flexible with respect to location and occupation. They possess up-to-date labour market skills, and do not have a work history tying them to any particular organization or occupation. Moreover, they are not already part of an organization's bureaucracy and hence represent resources which can be deployed in the most efficient manner without disruptive costs to both employer and employee. At the margin they are by far the most adaptable resource available to an organization and their deployment facilitates growth in an ever-changing marketplace.
>
> (Foot 1987b, 8)

To a certain extent, however, the smaller number of new labour market entrants could be offset, at least until the end of the century, by expected gains to be reaped from the presence in the labour force of the large, gradually ageing and relatively well-educated baby boom generation, whose members are now in their twenties and thirties. Major investments were made in educating the members of these cohorts, and one would logically expect a payoff from such an investment, particularly as workers gain on-the-job experience. Thus, "age-related productivity gains may act as an offset to the reduction in numbers associated with slower labour force growth" (Denton and Spencer 1987b, 10).

Four caveats should be noted in discussing the potential productivity gains associated with the presence of the baby boom generation in the labour force. First, the education obtained by the current labour force in the 1950s and 1960s may well be inappropriate in the late 1980s and 1990s, particularly given the changing economic environment and technological change. Furthermore, the returns to such investments already appear lower than originally expected, as the supply of individuals with higher education has grown. Second, training and retraining to update skills and facilitate adjustment are of critical importance. This suggests that governments may have to expend more resources on such programs as the ageing of the labour force continues. Third, the expected productivity gains associated with on-the-job experience may not be fully realized, given the high youth and young adult unemployment rates that have characterized the past decade and still prevail. There is little understanding of the potential long-term effects of youth unemployment on overall labour market productivity and personal labour market potential, and efforts will need to be made to assist the unemployed in making the transition from dependency to active involvement in the labour force. Finally, the ageing process may make the baby boom labour force less mobile – from both an occupational and a geographical perspective – thereby impeding the adjustment process.

Demand for Public Expenditure

A number of studies have projected the likely effect on overall government expenditures of the declining demand for some services, such as education for the decreasing youth population, and the accelerating demand for other services, such as health care and income transfers in the form of pensions for the increasing number of elderly people. The scope of this paper does not permit a full discussion of the results of these studies. It is worth noting, however, that most researchers have concluded that the overall cost to the public sector appears manageable, at least until the turn of the century, but the federal level of government will bear a disproportionate share of the costs (Foot 1987a). This is because the most burdensome items – income transfers to the elderly – are primarily the responsibility of the federal level of government.

Analyses of the impact of the changing age structure of the population are frequently couched in discussions of dependency ratios. As discussed above, the total population and labour force dependency ratios are likely to decline by the end of the century, with the rising elderly dependency ratio being more than offset – at least in a numerical sense – by the declining youth dependency ratio. Since the taxable base of the population will remain large as a result of the presence of the baby boom generation in the labour force, it would appear that the overall dependency ratio, at least to the end of the century, will not be onerous and in fact will be lower than levels experienced in Canada in earlier decades.

At a superficial level, this conclusion appears reassuring. However, as Foot (1987a) has pointed out, this traditional approach to assessing dependency ratios makes a number of assumptions that may have to be questioned: first, that on a per capita basis, expenditures on the young are the same as those on the elderly; second, that all members of the working age population are gainfully employed and do not depend on public resources; and third, that resources can be transferred readily from the young to the elderly.

With respect to the first assumption, Foot estimates (on the basis of his own previous research) that per capita government expenditures on the elderly are roughly two-and-a-half times greater than those on the young. Thus, "a rising elderly ratio even if exactly offset by a declining youth ratio, would result in an *increase* in government spending . . ." (Foot 1987a, 6).

The second assumption is that all members of the labour force source population are gainfully employed. However, in 1985, less than two-thirds of the male and female source population participated in the labour force (Foot 1987b, Table 2). Furthermore, even for those in the labour force, unemployment rates are high and may remain high in the future. Thus, labour force participation rates and unemployment affect the size of the productive and taxable population base. Also, unemployment is associated with government expenditures on income support programs such as unemployment insurance and welfare. Moreover, in a changing economic environment characterized by adjustment challenges, public programs such as training and mobility assistance for displaced workers will also drain public resources. Thus, youth and the elderly are not the only members of society who may pose a dependency burden.

Finally, the third assumption is that resources can be transferred readily from youth to the elderly population. Thus, for example, the resources spent on education for the young can be redirected to pensions or health care for the elderly. However, there will be adjustment costs associated with the dislocation of workers in the teaching occupation, and the existing education infrastructure (buildings, equipment, supplies and so on) may not be readily transferable to other uses. Furthermore, different levels of government are responsible for different types of public expenditures. Transferring resources from youth to the elderly may therefore imply the renegotiation of federal-provincial cost-sharing arrangements—and by no means would this be a straightforward task.

In summary, population and labour force ageing are occurring at a time when the economy is changing rapidly and when unemployment levels remain relatively high. This combination of demographic and economic forces is placing considerable pressure on federal and provincial governments to provide income support for the long-term unemployed, as well as training and mobility assistance for displaced workers. Ironically, these increased demands on social expenditures are occurring at a time when governments are also faced with the prospect of increasing costs for the provision of income support and health services to the growing elderly population.

These new pressures and demands are forcing governments and policy analysts to reassess the nature of social welfare systems in Canada. For example, several recent proposals have been developed at the federal level to reform the income security system, including the nature and role of unemployment insurance. Unfortunately, most of these proposals have not yet been translated into action. Concern about the cost of pensions has resulted in modest reform, as pointed out in the paper by the Honourable Monique Bégin in this volume. However, in the area of health care, discussion is only beginning on the need to restructure health care delivery in order to reduce costs and provide more appropriate care for the elderly.

These are, of course, the traditional areas of social policy, and reform is debated on the assumption that the direction of demographic change is inevitable. However, there is an alternative set of policies that has the potential to alter demographic trends by affecting the size, rate of growth and composition of the Canadian population and labour force, thereby influencing the productive capacity of the economy. The purpose of the next section is to explore these alternatives and to focus on the past and the potential future role of immigration.

5. The Role of Immigration

If the objective is to arrest both the decline in the rate of population growth and population ageing, two areas of public policy assume relevance: first, the encouragement of higher fertility; and, second, the encouragement of higher net immigration (by increasing gross immigration and endeavouring to stem emigration). It is sometimes argued that higher fertility could be encouraged by a range of public policies, including child care and tax incentives. Indeed, a number of European countries have developed explicit pro-natalist policies by introducing incentives such as more generous maternity leave. It would appear, however, that these policies have met with mixed success. One can only speculate about the extent to which pro-natalist policies would be effective in Canada. What is clear, however, is that the discussion of pro-natalist policies has not yet received much attention in governmental debate or legislation.

This points to higher net immigration as the critical public policy lever for increasing the overall size and rate of growth of the population. Given the reluctance of Canadian governments to stem the free movement of people by restricting emigration, immigration policy tends to concentrate on the level and composition of gross immigration flows as the key mechanism for meeting demographic and economic objectives. Let us begin by considering the demographic and economic role played by immigration in the past.

It is estimated that over the century 1881-1981, net immigration accounted for one-fifth of total population growth, while natural increase accounted for four-fifths. In recent years, the absolute level of natural increase remained relatively stable, despite a gradual decline in the fertility rate from 1.825 in 1976 to 1.686 in 1984. By contrast, net annual immigration levels exhibited considerable variation during the same period. As a result, the magnitude of the role played by net immigration has fluctuated dramatically. In 1985, when net immigration was very low, at 36,600, it accounted for only

15.4 per cent of total annual growth of the population, much lower than the 22 per cent average annual contribution of net immigration to population growth over the previous 10 years (Seward 1987b, Table 2).

Immigration has also affected the age structure of the Canadian population. The age composition of the total stock of the immigrant population differs from that of non-immigrants. The immigrant population tends to be older. Based on census data, the average age of immigrants was 43 in 1981, compared to about 30 for non-immigrants. Those under age 20 accounted for only 12 per cent of immigrants but 36 per cent of non-immigrants. By contrast, 17 per cent of immigrants were 65 or over in 1981, while only 8 per cent of non-immigrants were in this age group (Statistics Canada 1984).

On the basis of this evidence, it would appear that immigration is contributing to the ageing of the population. However, this conclusion is misleading because it does not take into account the fertility behaviour of immigrants after their arrival in Canada. Quite appropriately, the children born to immigrants after their arrival are not considered immigrants, because they are Canadian-born. Thus, the contribution of immigration to overall population growth is underestimated, and the average age of the immigrant population is higher than it would be if the children of immigrants were included in the calculation.

In addition to increasing the size and rate of growth of the population, immigration also has a direct impact on the size and composition of the labour force, which in turn affects the productive capacity of the economy. Net immigration's contribution to the growth of the source population has varied considerably over the last 30 years. During the period 1951-1956, net immigration accounted for over 47 per cent of its growth. By contrast, during the period 1979-1983, net immigration accounted for only about 18 per cent of the growth of the source population (Seward 1987b, calculations based on Table 3). This was in part because of falling immigration levels in the early 1980s and in part because of a gradual decline in the proportion of immigrants destined for the labour force. Whereas in 1970, 53 per cent of all immigrants were destined for the labour force, this proportion had fallen to 44 per cent by 1984 (Samuel and Francolini 1985).

To a certain extent, however, immigration's contribution to the size of the source population understates its overall contribution to the growth of the labour force. This is because the participation rate of immigrants, when controlled for age, is higher than that of non-immigrants. In 1981, the age-adjusted participation rate of immigrant men was 79.4 per cent, compared to 77.9 per cent for non-immigrants. The differential for women was even greater, with a participation rate of 55.6 per cent for immigrants compared to 50.6 per cent for non-immigrants (Statistics Canada 1985).

Immigration has also affected the composition of the labour force, particularly in terms of education, skill and occupational characteristics. Canada has traditionally relied heavily on immigrants to supply skilled labour needs. During the 1950s and 1960s, over 40 per cent of all immigrants destined for the labour force intended to enter professional, technical or skilled occupations. Moreover, the proportion of immigrants intending to enter professional and technical occupations increased from 4 per cent in 1951 to 27 per cent in 1971. At the same time, immigrants intending to enter unskilled occupations dropped from 43 per cent in 1951 to 14 per cent in 1971 (Parai 1974 and Library of Parliament 1986). This shift was attributable, at least in part, to the 1967 points system, which gave preference to highly educated and skilled immigrants. In more recent years, this trend has continued. In 1984, 22.4 per cent of immigrants destined for the labour force were in professional and administrative occupations (CEIC 1986), many of which historically have been characterized by labour shortages. This is not surprising, given that in 1981, a higher proportion of immigrants (10.5 per cent) than non-immigrants (8 per cent) had university degrees (Seward 1987b).

What are the implications of these historical trends for the future? In particular, can immigration be expected to affect population and labour force growth significantly and can it potentially facilitate economic adjustment?

As already shown, immigration has contributed significantly to the rate of population growth, even though its contribution has declined in recent years. While natural increase is clearly the more important variable, fertility rates have been declining steadily, and the evidence from many other industrialized countries suggests that the decline may continue (Taylor 1986). If the current expansionist immigration policy of the federal government continues, it is likely that immigration will play an important role in population growth in the future. Similarly, given the declines in labour force growth rates projected to the end of the century, immigration will become a more important force than it is at present, particularly since the participation rates of immigrants historically have been higher than those of non-immigrants. Furthermore, if past trends continue, immigration is likely to bring new skills to Canada at a time when adjustment pressures may create skill shortages and special needs. Also, since immigrants tend on average to be more highly educated than non-immigrants, their occupational mobility may be higher.

Thus, immigration has the potential to facilitate adjustment and to alleviate dependency burdens associated with an ageing population. Whether immigration can in fact fulfil this potential will depend on a number of factors. First, will the current federal government policy of increasing immigration continue in the future, and will the targets be met every year? Second, what categories of immigrants are likely to come to Canada in the future? The current federal government is placing considerable emphasis on encouraging independent immigrants (including business immigrants) who are destined for the labour force. Will Canada be able to compete for such immigrants in the future? And to what extent will non-economic pressures, such as international refugee movements, change the composition of immigrant flows in the future? Finally, are Canadians adequately prepared to function in an increasingly multi-cultural society, characterized by a growing proportion of immigrants from Third World countries? The answers to these questions may well influence the demographic and economic role that immigration will play in the future.

Conclusion

Economic change and demographic pressures are forcing Canadian federal and provincial governments to seek reform in traditional social programs. Increasingly, however, it is recognized that social policy must be discussed in the context of broader socio-economic-demographic interrelationships. Indeed, the capacity of the Canadian economy to adjust and adapt in a competitive international environment may well depend on the success of public policies designed to ensure the flexibility and mobility of an ageing population and labour force.

In this context, the potential role of immigration in stimulating population growth, stemming population ageing and fueling economic growth assumes more importance than ever. It is not surprising, therefore, that the discussion of immigration issues has become a key topic of policy debate in Canada in recent years.

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Health and Welfare: Searching for Efficiency in Long-Term Care

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Pursuing Efficiency

> I do not consider that efficiency needs to be mated to extreme delicacy or precision of touch. . . . It should possess a sweeping gesture – even if that gesture may at moments sweep the ornaments from the mantelpiece. (Harold Nicolson, "On Being Efficient", *Small Talk*)

Delicacy and precision of touch do not come readily to mind when considering Britain's efficiency-dominated health and welfare policies and practices of the 1980s. A multiplicity of initiatives and new agencies has combined with continuing constraints on public expenditure and growing demands for provision to bombard the policy maker with calls for efficiency. Some of these calls may have been well intentioned; the Audit Commission's emphasis on accountability is surely correct, the development of performance indicators for the National Health Service is a step in the right direction, and the frenetic activity of the new Social Services Inspectorate has usefully

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focused attention on outmoded assumptions and ineffective practices. When it comes to implementation, however, ideology often appears to dominate evidence, and grand gestures can be misdirected and misleading. For example, de-institutionalization policies often ignore the unacceptable realities of community care for some people, and both sides in the privatization debate have paid scant attention to the available evidence on the merits and failings of a mixed economy. Different interpretations of efficiency are used to support different policy positions.

This paper examines the efficiency-enhancing properties of two themes running through British health and social care services: the move away from reliance on institutional provision (a theme of at least 30 years' vintage) and the more recent move away from reliance on public sector domination of service funding and production. Efficiency as a criterion of both policy and practice has often been interpreted in its narrowest and most dangerous sense – an efficient service is a cheap service – and has focused on very short horizons. It hardly needs adding that efficiency considerations have diverted attention and energy away from the pursuit of other policy goals, especially equality of access or opportunity and other interpretations of equity or fairness. Sometimes, of course, efficiency and equity take us in the same direction – value for money and a philosophy of normalization might both suggest a reduction in the number of mentally handicapped people in hospital – but even here there are hidden dangers.

The arguments focus on efficiency in relation to *long-term care* services, because their implications for clients (or patients) and for levels of expenditure are so considerable, and on *health care and social care* services, because their responsibilities are interlinked and often indistinguishable. Such a focus will mean excluding a number of interesting and important issues – the introduction of high technology medicine, attempts to control drug costs, effective provision of respite care, clinical budgeting and the accountability of general practitioners, a preventive policy for child abuse, the decentralization of social care services to neighbourhood teams, and so on. Many of the problems raised by these other issues are not greatly different, however, from those facing long-term care. This paper deals mainly with English (and occasionally also Welsh) policies and practices. In some important respects the structures of the health and social care systems in Scotland and Northern Ireland are rather different from those of England and Wales. Examples are the Scottish juvenile justice system and the integrated area boards running health and social care in Northern Ireland.

The Meaning of Efficiency

It is clearly sensible to preface a discussion of the efficiency-enhancing properties of health and social care policy proposals or practices with a succinct definition of efficiency. This is difficult. Almost every commentator, policy maker and researcher has his or her own notion of what is meant by efficiency. The following concepts and terms span most of those notions and – more important – cover the range of concepts needed for this discussion.

Effectiveness is success in achieving service objectives, specified either at the service delivery level ('intermediate' effectiveness or output) or, preferably, in terms of the effect of the service on the recipient and other affected parties ('final' effectiveness or output). Effectiveness is not an efficiency concept.

Economy is the minimization of cost or expenditure without necessarily any regard for effectiveness. This, too, is not an efficiency concept.

Technical efficiency is achieved when a service agency (for example) maximizes the effectiveness obtained from a given set of resources, such as when available staff and buildings are combined in the best way to enhance the quality of the lives of elderly attenders at a day centre.

Price efficiency refers to production or achievement of a given level of effectiveness at the minimum cost. This may be the cost to the direct provider or to society as a whole. Ideally, costs will be measured comprehensively and will reflect 'opportunities forgone'. It may be the case, for example, that public and voluntary children's homes provide equally acceptable quality care. Price efficiency might then be achieved by public sector contracting out services to the voluntary sector.

Cost-effectiveness requires that both technical and price efficiency are attained.

Target efficiency is slightly different: it is "the efficiency with which resources are allocated to and among those for whom receipt has been judged the most cost-effective method of intervention" (Bebbington and Davies 1983). It is a measure of the extent to which a particular principle of equity (itself embodied perhaps in allocation according to some principle of need) is met in practice by the distribution of care resources. *Horizontal target efficiency* is a measure of the extent to which those deemed to be in need of a service receive it; *vertical target efficiency* is a measure of the extent to which available services go to those in need.

For rigorous investigation more specific definitions will be needed (see Knapp 1984, Chapter 5 for some suggestions). For most practical purposes it is sufficient, at least as a start, to emphasize that efficiency needs to be couched in terms of both cost (resources used) and effectiveness (especially the impact on clients and on their relatives and caregivers). A policy that raises effectiveness but not cost, or reduces cost but not effectiveness, is clearly more efficient or cost-effective than the policy it replaces. Whether it is the most efficient is usually impossible to tell.

De-institutionalization

Diversion and decanting

Cutting the institutional population requires both *diversion* and *decanting*. Most post-war governments have put their minds, though not always their budgets, to devising newer and better ways of doing both. Success has been variable. For example, the proportion of children in care accommodated in residential homes has fallen from around two-thirds in 1949 to less than one-third today, and the physical and social features of establishments are now very much less institutional. About one-fifth of the child care population is living at home under social work supervision, compared to a minute proportion some 30 years ago. At the same time, the proportion of the population under age 18 in the care of statutory agencies is now much higher, despite years of emphasis on preventive care. In the wake of the Jasmine Beckford child abuse case, the in-care and residential care proportions both seem likely to rise again, although probably only temporarily. Generally, however, there has been a growing reluctance to take children into care and to keep them there without effecting some form of permanent placement. There have been important service innovations – special family placement schemes for disturbed, handicapped or delinquent youngsters, non-residential assessment of needs, intermediate treatment as an alternative to custodial sentences – each targeted at diversion away from institutional provision or moving children quickly out of institutional settings.

In removing the automatic assumption of a need for care in a residential setting and by cutting the residential home population, child care policies have been among the successes of health and social care developments of recent years. Even so, the emphasis on efficiency has created many difficulties. It may have propelled de-institutionalization forward at a rate faster than even the most committed professionals would have expected, and almost certainly faster (in some areas of the country at least) than the ability of social care agencies to adapt and respond. I will not consider these and other difficulties in this paper; they have been discussed elsewhere (Knapp 1985; Knapp and Robertson 1986). Instead I want to address the policy and practice difficulties inherent in an efficiency-dominated approach to de-institutionalizing other long-term care groups – the elderly, mentally handicapped and mentally ill persons. I will first consider some of the diversionary tactics – obviating the need for institutional care in the first place – and then look more pointedly at decanting, and particularly at the run-down of long-stay (or chronic care) hospitals.

Diversion and efficiency: elderly people

Controls on public sector capital expenditure superimposed on an ageing population have produced what could be called 'passive diversion' of frail and dependent elderly persons away from institutional provision. If sufficient numbers of residential home or hospital places are not available for the increasing numbers of elderly people, then the institutional proportion can only fall. This may have been a fine way to alter the balance of care, except that changes in social security regulations in 1983 suddenly made it much more attractive to open private (for-profit) residential and nursing homes and caught public agencies with few regulatory powers.

This regulatory change substituted national for local limits and had very different effects across the country. The result has been that, while there has been virtually no increase in the number of places in local authority homes, there has been a vast increase in private home places. This growth was boosted by the 1983 supplementary benefit changes, but it was clearly not due solely to them. Indeed, only about one-third of all people in residential care are supported by supplementary benefit payments. Of the people supported by public funding, the majority are still supported by local authorities.

Policies aimed at 'active diversion' were relatively slow to emerge. However, there is now a growing body of evidence to suggest that community care services can be efficient alternatives to institutional provision for many elderly people – efficient in the sense that they enhance quality of life (for both client and caregiver) and reduce costs. The community care schemes developed and evaluated by some of my colleagues, combining enhanced autonomy and discretion for case managers, flexible packages of care, and budget awareness at all levels of operation, are proving tremendously successful in many parts of the country (Davies and Challis 1986). Other community care arrangements offer similar opportunities for long-term gains for chronic care clients and the communities that support them (see, for example, Davies 1986; Ferlie, Challis and Davies 1984).

The Care in the Community initiative

There is relatively little British evidence about the effect of diversionary policies for mentally handicapped and mentally ill people, and certainly there would seem to be much less agreement about the direction of future policies aimed at keeping people in their communities. Until recently there has also been little examination of the impact of policies aimed at rehabilitating persons in sheltered hostels and residential settings. In 1981 the Department of Health and Social Security (DHSS) issued a consultative paper, *Care in the Community*, followed two years later by a circular of the same name. The circular announced a new care initiative to help long-stay hospital patients kept in hospital unnecessarily to return to the community, based on the belief that this will be better for them and it is what they and their families prefer.

The Care in the Community circular stressed that a move from hospital should be conditional, where possible, on the agreement of clients and their families and should be in their best interests. One aim of policy, then, is to improve the quality of clients' lives. Two other aims set out in the circular were equally important in implementing the initiative. The first was to improve joint working between the health service and local authorities, particularly through joint finance arrangements. The other was to investigate how cost-effective community services might be provided to meet the needs of long-stay hospital patients.

A series of 28 pilot or demonstration projects was announced, each funded centrally for three years – 13 in the first round, which began in April 1984, and 15 a year later. Most of the projects represent models of care for mentally ill, mentally handicapped, elderly or elderly mentally infirm people, many of whom have been in hospital for 20 years or more. Projects offer a variety of services for people who need different degrees of support and care. This includes providing residential and day care and support services for clients' families. De-institutionalization, therefore, is interpreted in a relative sense only – compared to hospital, a residential home or sheltered hostel is considered to be 'community care'.

To some extent, the Care in the Community initiative and its program of demonstration projects have been overtaken by events. Encouraged by fiscal pressures, regional health authorities have been running down their long-stay hospital beds at a fast rate. This has been without the benefit of additional central government funding, and there can be little doubt that in some cases considerable problems have been encountered in setting up appropriate and adequate community facilities. The demonstration projects, therefore, will be of only limited relevance in showing that long-stay patients can move into the community – for this is already happening in a big way – but they have a crucial role to play in demonstrating how people can move *successfully* into the community.

Some demonstration projects will fail and others will be unqualified successes; it is imperative to learn from both. This is one of the reasons why the monitoring and evaluation of projects by the Personal Social Services Research Unit, University of Kent at Canterbury, are so important. A related reason was the earlier concern expressed by both the Public Accounts Committee and the DHSS about the need to monitor the way joint finance is applied and to review the cost-effectiveness of community care. A major element of the Care in the Community initiative has been to fund pilot projects that look as if they will improve clients' lives and that, if successful, appear to be affordable and therefore replicable by other authorities.

Community care and the cost imperative

The notion of community care began to take hold well before the creation of the National Health Service (NHS). Indeed, active deinstitutionalization in psychiatric services can be traced back at least as far as the 1920s in Britain. In the post-war period, advocacy of community care originated in several perspectives. Bound up in many of them was an economic argument. Many of the hospital buildings in those early post-war years were old and in need of repair and replacement; their maintenance and the huge numbers of staff employed were costing a considerable amount of public money. New hospitals would be even more expensive. It was argued then that community provision was cheap – certainly cheaper than hospital.

This view re-emerged many times in the post-war period. *Better Services for the Mentally Ill* (DHSS 1975) is typical of many policy statements, with its unequivocal but untested assumption that a community psychiatric service would be no more expensive, and probably cheaper, than the hospital provision it replaced. Only recently has a more considered view emerged: "For some people community-based packages of care may not always be a less expensive or more effective alternative to residential or hospital provision" (DHSS 1981, 20).

An additional premise has also been implicit for some years in most statements of how future care should be planned: community services should be able to provide better (more effective) care than the old institutions. It is argued that most of the services received by most long-stay patients in hospitals can be provided equally well in the community; in addition, the community setting is preferred by most clients and by most of their relatives and associates. Of course, there will always remain people who need – or who prefer – the hospital setting. This effectiveness rationale has depended, in part, on the argument that communities are not only capable, but also *willing*, to take responsibility for the care of people previously or otherwise served in institutions. There have been changes in the number of people in the population willing and able to *be* 'the community' in one sense or another.

Thus, the emphasis on community care is based on three premises:

- normalization and acceptance,
- relative cost, and
- effectiveness, incorporating the preferences and well-being of mentally ill, mentally handicapped and elderly persons and their relatives.

Received opinion today would argue, then, that community services can be more expensive than hospital provision in many circumstances, but also more cost-effective. Such opinion is based on an incomplete view of the range of services provided and of the effects felt by individuals and communities. We must move beyond anecdote to the careful questioning of this cost-effectiveness assumption, as well as examine two related issues: the cost implications of the run-down of hospitals and the relative cost-effectiveness of different community arrangements and service packages.

Even if an efficiency advantage can be established for community care through careful investigation, service managers still have to find the actual cash difference. In the nature of the case, even average long-term hospital savings cannot be enough to finance community provision – and in the immediate future they will certainly fall far short. The recent changes in joint finance rules and the legalizing of dowry payments (transfers of resources from hospital to community services along with clients) are not sufficient in themselves to ensure major progress. A large amount of bridging finance or double funding will be needed to allow community services to develop to the point where enough patients have been moved from hospital to permit significant savings to be made. (The Audit Commission, 1986, has estimated that perhaps as much as 50 per cent of hospital costs is overhead, and this will not fall significantly as hospitals run down.) Some money is already available for this purpose in many areas through regional pools and the Care in the Community program, but most district health authorities and local authorities appear to be pressing for more.

Resolving the question of bridging finance leaves open the question of whether community services can be financed adequately even if hospital savings are made and transferred to the local authority.

Comprehensive costings

Discussions of efficiency need to avoid some common pitfalls. First, all costs need to be taken into account, whether or not they fall to the agency primarily responsible for a service. Costs incurred by local authorities (social services, education and housing departments), health authorities, social security agencies, voluntary organizations and, of course, clients and their relatives need to be included. The 'hidden' costs can often be as large as, if not larger than, the directly observed costs. What is more, the hidden costs often create disincentives to good practice. Keeping an elderly person in hospital involves no direct cost to the relatives, whereas payment must be made for accommodation in a home run by a social services department. Spouses or children may face a hefty, unaffordable burden, or the client's money may have to be spent on charges. However close a family, it is natural there will be mixed feelings about this.

An illustration of the need for comprehensive costing comes from a small Care in the Community demonstration project that has provided ordinary houses for 12 mentally handicapped adults. The health administrators may have seen this as an opportunity to save money, because the houses were provided by a voluntary organization that received charitable incomes and government grants, and most of the running costs were covered by residents' social security benefits. Staffing was provided and managed by the health service. Although the cost of the new houses to the health service was reduced, the total cost (including housing grants, social security and day care costs) was higher than it had been before. It is worth pointing out, however, that the advantages for the 12 clients look to be considerable. They are able to take part in many more activities and to develop skills in areas where they had never had the opportunity; tremendous changes in behaviour and abilities can already be observed. Community provision in this case is not cheap, but it is almost certainly cost-effective.

The comprehensive costing of hospital provision is only marginally less important than the costing of community provision in the short term—and is clearly crucial in the longer term if hospital resources released by run-down and closure are to be used to underwrite new developments in community provision. But this is problematic. The main element in both defining hospital savings and determining what is done with them is the conflict of interest over whether the 'gain' should accrue inside or outside the hospital. Hospital consultants and administrators are bound to prefer spending the same amount on fewer patients rather than deplete already inadequate budgets. The running down of real resources on which hospital administrators have predicated their agreement to lose funding may prove mysteriously difficult to realize.

Moving beyond averages

Even if hospital costing is comprehensive, there is a danger that it will be based on average costs per patient rather than on marginal costs. The need to move beyond average cost measures is crucial in relation to both hospital and community facilities. Dowry payments – annual payments from the hospital budget of the region to district health authorities or local authorities – are calculated on the basis of the average hospital costs either across a whole region or for individual institutions. Some dowries distinguish between NHS and non-NHS recipients – in Trent Region, for example, the non-NHS recipients receive only half the £12,000 dowry payable to NHS recipients. Only occasionally, however, (in West Midlands Region, for example) is there a mechanism designed to reflect dependency differences among clients.

This has two inherent dangers. First, it provides a clear disincentive for local authorities to participate in joint working schemes. Second, it provides disincentives for districts to move higher-dependency patients out of their own community services. "Dowry payments are not related to dependency levels in the case of transfers within the health service" (Wistow and Hardy 1986, 108).

The general issue is that the characteristics of clients (such as level of ability, frequency and nature of problem behaviour, and age) have implications for the cost of services, so it is important to take them into account in any cost comparison.

Comparing like with like

For sensible cost comparisons to be made between hospital and community settings – and within a range of alternative community programs – these client characteristics must be taken into account.

In the early years of the transition from hospital to community services, patients moving to the community will probably be less 'dependent' (in terms of skills, behavioural problems, physical characteristics and capabilities) than those remaining in the hospital. This is not altogether surprising, as the development of good community services is still a new venture, and changes will be made more smoothly and quickly for people whose needs can be met more easily. Furthermore, the movement of the less dependent, and thus the less costly, clients reduces the bridging costs of new community services. Problems arise because such selective resettlement can greatly complicate the negotiation of financial responsibility for both the people who move and those who are left behind.

If it is the case that the average cost of a package of services varies directly with the 'dependency' of clients (the cost-dependency gradient may not be very marked in hospital settings) and that a higher proportion of hospital patients are dependent when compared with the community-based population, then the resource implications of a community care policy will be rather different from those suggested by a simple comparison of present average cost figures. It is straightforward to demonstrate how savings to the health service of moving clients from hospital to community care will be exaggerated by the simple (mean) average cost figures prepared for clients *currently* in care. Generally, there will be an increase in the (mean) average cost of both services, despite a *fall* in total expenditure. A de-institutionalization policy, therefore, could save money, but a cursory glance at trends in average costs might suggest quite the opposite.

The observed cost inflation in the hospital setting will be picked up as part of the transition cost, although it may not really be a transitional cost element itself but simply the result of what has been referred to elsewhere as a 'creaming' process. Many hospitals and health authorities have begun to express disquiet over the selective resettlement of the 'best' patients. The concern arises both for financial reasons and in relation to the continuing role of the hospital. The hospital would necessarily become a more specialized service, perhaps for those with particular medical or behavioural problems, and might be the most cost-effective solution for those people. Hospitals are concerned that most of their resources would have moved with the resettled patients, together with the more enthusiastic and best qualified staff, leaving behind a 'second-rate' service for 'second-rate' people. This concern is genuine, although over the last 10 years gross current expenditure on in-patient services for the mentally handicapped, for example, has grown in real terms while in-patient numbers have fallen. The ratio of nurses to in-patients improved from 1:39 in 1969 to 1:13 in 1984. Even taking into account the deteriorating capital stock and the postponement of essential maintenance in some hospitals, there is as yet no evidence of a redirection of finances.

Even without the creaming process, hospital cost inflation is inevitable during a process of run-down leading to eventual closure, as the (quasi-fixed) overhead cost element – as much as 50 per cent of total costs – has to be spread across a smaller and smaller number of patients.

Social insecurity

Short-term, and perhaps even long-term, savings from the run-down of hospitals will not be sufficient to finance new community services. This is where the social security budget assumes importance.

Supplementary, housing and other benefits are proving to be a major source of finance for community care. Many clients will receive supplementary benefit in the normal way, in effect as the replacement for the 'hotel costs' previously picked up by the hospital. Some health authorities are seeking to reduce their own costs by placing clients in voluntary and private residential care and nursing homes. (This is more common outside the program of pilot projects than within it.) In these placements clients attract the board and lodging allowance paid out of the national social security budget. The primary problem that is arising, both within and outside pilot projects, is that discharged long-stay hospital patients have needs that often are not easily met by the present social security system. Thus, community service managers endeavour to make 'creative' use of these social security arrangements. But over-reliance on social security payments as a major source of revenue for care in the community can be dangerous – assessments are not uniform, and minor legislative changes can have major effects on revenue. It also has dangers for the quality of care:

> [We] are providing third-party financing with perverse incentives accompanied by weak quality assurance directed at inputs more than process, and process more than outcomes; little case management, and case management for social care only for those who seek public provision. The UK is in danger of losing the opportunity to shape the independent long-term care industry in its most formative period. (Davies and Challis 1986, 540)

Generally, it is this fragmentation of the funding for community care that raises complex issues about efficiency incentives and case management responsibilities.

Privatization

Mixing the economy

A second major theme running through health and social care policies in Britain – as in Canada – is privatization. Again, one can see the influence on current thinking of the new efficiency awareness. A cursory glance at the available data – such as those reproduced in Table 1 – may suggest that the voluntary and private sectors are cheaper and perhaps more efficient than the public. With cost differences like these it is hardly surprising that so many people are advocating the further development of a 'mixed economy' of welfare. The privatization of care, it is argued, will promote value for money and cut waste. But how much is this encouragement based on empty rhetoric? How well does the efficiency justification for a mixed economy stand up to empirical examination?

Table 1
Costs and Fees in the Public and Non-Public Sectors

		Public	Voluntary[1]		Private[2]
		cost	cost	fee	fee
Children's homes (non-specialist)[3]	1982-83	185	151	140	124
Homes for handicapped children[3]	1982-83	274	215	173	159
Old people's homes[4]	1981-82	92	-	-	78
Day centres for elderly persons[5]	1976-77	2.29	1.16	-	-

1. Non-government, non-profit.
2. For-profit.
3. £ per child week. Source: Knapp 1986.
4. £ per resident week. Source: Judge and Knapp 1985.
5. £ per 'attender day'. Source: Knapp and Missiakoulis 1982.

The word *privatization* has come to acquire many meanings. At its most general it refers to any move away from the public provision of services financed entirely out of tax or rate revenue. Specifically, it can mean the privatization of production, funding or regulation (cf. Le Grand and Robinson 1984). For example, the dramatic growth in the number of private nursing homes and old people's homes represents privatization of production but not necessarily of funding, as so many residents are sponsored by local authorities or out of social security payments. It also represents some privatization of regulation, in that central government has been slow to draw up adequate guidelines for inspection and accountability and local authorities have been slow to increase the resources allocated to registration and review.

The distinction between voluntary and private producers is not merely the conventional distinction between non-profit and for-profit organizations; it also implies the particular registration requirements imposed by law. A fourth productive sector is also the largest: most social and health care needs are met informally. Individuals in need, or their relatives and neighbours, take preventive or curative action without involving any formal agencies.

Most services are funded from more than one source. Public funding is provided out of national insurance, rate and tax revenues, private/collective funding out of charitable contributions to non-public organizations, and private/individual funding out of the incomes of clients or their relatives. There are also services provided without exchange of payment or cost; informal care by the family is an obvious example. Together these four sources of finance and production describe the mixed economy of welfare.

Encouraging a mixed economy

Additional tax concessions were announced in the spring 1986 budget to increase the incomes of registered charities. This is just one example of the present administration's encouragement of the 'formal' non-public sector. Other forms of government encouragement have included

1. *purchase of service contracting* (POSC) or contracting out, which includes the piecemeal sub-contracting of hospital laundry and catering services, vendor reimbursement of fees – paid by local authorities to voluntary and private bodies for specific services for named clients (for example, residential child care) – and grants to organizations;
2. *tax concessions* to individual and corporate donors and to registered charities;
3. specific *government initiatives* – such as the initiative to establish voluntary sector intermediate treatment facilities for young offenders, with a requirement that local authorities later take over funding after three years;
4. *social security deals* – such as the effect of changing the rules governing board and lodging allowances; and
5. *passive encouragements* – public sector cutbacks lead to a greater residual of need some or all of which will be met by voluntary or

informal caregivers, or by clients out of their own (or their insurance company's) pockets.

It is possible to identify a number of rationales for public support of voluntary, private and informal action in a mixed economy. These are certainly not peculiar to the years of Thatcher government, although they have been aired more often of late. Running through many are assumptions about efficiency. One argument rests on the assumption that public production is technically less efficient than voluntary or private production. Another emphasizes the flexibility and innovative potential of non-public agencies. A mixed economy is also held to enhance choice, thus promoting individual liberty and consumer well-being. But each of these rationales is a belief rather than a verified truth; rarely are they supported by evidence of sufficient reliability to permit verification, rejection or qualification.

In examining these rationales it is important to distinguish a number of different policy emphases and service configurations. Four loom large in current discussions: a return to a market economy, charging clients for public services, an expanded role for the formal voluntary sector relying on the caring capacity of the community, and the growing practice of contracting out. I will argue that none of these forms of pluralism offers quite what is hoped by an efficiency-conscious public sector. Of the four, POSC, or contracting out, would appear to offer the greatest efficiency gains in the short term without upsetting other policy objectives, particularly the targeting of resources to needs. In the long term, the efficiency argument for POSC carries rather less weight.

Market allocations

A common interpretation of the term privatization is market provision: services are produced by for-profit organizations and purchased by clients or their relatives out of personal incomes. The sources of market failure are familiar. Consumer ignorance or inability to make 'rational' choices could be almost tautological for some client groups, and advocacy is in its infancy. Yet more important are the externality and equity arguments. Social care services and the National Health Service are just that – they are of social and national concern, not least because of the incongruence between the distribution of income and the distribution of need.

While atomistic markets may be unacceptable, there are quasi-market arrangements that may just foster some of the efficiency-promoting characteristics of markets without the accompanying disadvantages. Social care insurance might be a possibility, though experience elsewhere would recommend a social/health maintenance organization approach to overcome the usual problems associated with disembodied payments and to achieve the greatest effect on technical and price efficiency (Davies 1986). Other quasi-market arrangements might include service credits (see Cahn 1986) and delegated budgets and responsibilities to enhance flexibility in case management (Davies and Challis 1986). It would be neither sensible nor politically feasible to suggest large-scale changes, but carefully monitored experiments may offer enough information to assess the advisability of such arrangements. There are already some experimental studies of this kind – the Kent Community Care Scheme and 'patch' systems encourage micro-budgeting and decentralized decision-making – but it may well be time for more radical experimentation. Evidence would suggest that caseholder vouchers – services funded but not necessarily produced by the public sector and managed by caseworkers on behalf of clients within a client-specific budget constraint – can promote efficiency. However, the experimental evidence is still limited, and efficiency may well be improved only at the cost of other objectives, such as equity or liberty.

Client charges

Another retreat from public production/public finance is the charging of fees to clients of public services – 'backdoor' privatization. There are many arguments for and against charging, but the debate has been dominated by non-efficiency considerations. For example, charges to residents of old people's homes were introduced originally in 1948 to reduce the stigma attached to the receipt of public provision – a hangover from Public Assistance days. Parents of children taken into care were to be charged part of the costs to prevent abuse of the system. In any case, there are so many exemptions and administrative procedures associated with some forms of client charges that the revenue generated is barely likely to exceed the cost of collection – or will only do so by reducing demand in a way that exacerbates inequity. It has yet to be demonstrated conclusively that client charges deter those with the lowest needs. Charges might just improve price efficiency, but only at the cost of lower (horizontal) target efficiency (Birch 1985; Judge and Matthews 1980).

The caring capacity of the community

A third way of mixing the economy is to rely on the so-called caring capacity of the community – both formal and informal. The formal voluntary sector would be encouraged to finance a larger proportion of its activities from charitable donations from corporations and the general public and through various commercial activities (Oxfam shops and the like). Tax concessions help here, and we may soon see employee contributions deducted directly from salaries, as is done for the United Way in North America. There is, however, no British evidence about the elasticity of donations in relation to income or the marginal returns to fund-raising expenditure by charities on which to base such an encouragement. Might it be that the British public has a softer spot for launching lifeboats, researching cancer and rescuing destitute donkeys than funding services for, say, young offenders or mentally handicapped adults?

Similar doubts would have to be expressed about the capacity of the informal sector to bear a substantially larger burden of provision. The unsatisfactory position of many informal caregivers, burdened by guilt should they suggest formal provision and yet burdened by care should they not, is no longer ignored, but adequate assistance (in cash or in kind) is not yet available. But to expect 'the community' to expand its caring capacity without such assistance is to expect informal caregivers to bear an unacceptably large burden – unacceptable on both externality and equity grounds. (There is a long tradition in the UK of unpaid community service, regarded by many as a precious social asset. It would be wrong, therefore, to view the total of informal care as an inadequate substitute for formal public sector provision. However, it would be equally wrong to assume that all informal caregivers choose to take on this burden of responsibility.)

Purchase of service contracting

What, then, are the implications of the fourth variant of a mixed economy – purchase of service contracting (POSC)? Will POSC enhance efficiency and, if it does, with what implications for the agencies and clients concerned?

Regulation. Privatization of production is unlikely to be accompanied by any marked deregulation of quantity, quality or price. There are at least three reasons for this. In most social care services the growth in POSC has outstripped the growth in non-public provision. Private and voluntary agencies have been selling a greater proportion of their service outputs to the public sector, and their income from fees and grants has become proportionately larger. The public sector has thus acquired greater monopsony power, giving it the opportunity to regulate the private and voluntary sectors. This opportunity has been seized. As the non-public sectors become more important, they will come under closer scrutiny. The marked trend towards accountability in the public sector is unlikely to leave the voluntary and private sectors untouched. In fact, there is evidence of asymmetric distrust, which would impose greater accountability requirements on the non-public sectors than on the public (see Judge and Knapp 1985).

Regulation, particularly of quality, remains politically imperative in an area of such sensitivity as long-term health and social care. However, there is no good cause for asymmetric regulation; *all* sectors need regulation. The Jasmine Beckford case, the children's homes scandals in Northern Ireland and Lewisham, and many other instances give no cause for public sector complacency. Of course, growing regulation threatens the autonomy of private and voluntary providers and removes incentives to invest, innovate, and generally seek efficient working practices. Too many current regulations are of the 'tape measure' variety. Long-term care in Britain is a long way from the effectiveness-related approaches to the misleadingly named 'quality assurance' now prevalent in many US states, and we would do well to learn from the mistakes inherent in them – too expensive in the implementation and too late to alter many of the practice disincentives introduced by earlier regulatory mechanisms (Davies 1986; Davies and Knapp 1981, Chapter 7).

Polarization. Of course, the public purchase of services under contract usually runs in parallel with private purchase. Private old people's homes may accommodate residents supported by a local authority or by supplementary benefit payments as well as residents paying for themselves from, say, a combination of the proceeds of property sales and private or occupational pension plans. In practice we are seeing a polarization of provision. The maximums imposed on social security payments for residents have forced many proprietors to lower the quality of provision. We have a long way to go before we reach the degree of polarization for which the US health and social care systems are infamous, but low-cost homes are already becoming the preserve of publicly supported residents, while those with sufficient private incomes will continue to be able to purchase services of higher quality.

Choice and liberty. The choice-enhancing qualities of a mixed economy are often lauded, particularly at a time when clients and their relatives are articulating their demands loudly and clearly. Choice offers benefits to clients and potential clients. For a variety of reasons – job protection and some cost-related issues discussed below – public sector authorities are not offering their clients or caseholders realistic choices in placement. This arises partly because of restrictive long-term contracts with non-public organizations and partly because of the removal of decision-making powers from fieldworkers. There is also the growing 'localization' of services – keeping clients in their home areas (most of the London Boroughs seem rather less keen to ship their elderly and child care clients off to the South Coast) – which reduces choice for the more specialized forms of long-term care. The growth of POSC has been particularly noticeable as a substitute for local authority provision rather than a complement, again offering little increase in choice. "The need for choice does not necessarily imply a multiplicity of providers, but rather a multiplicity of service types" (Heginbotham 1985). Anyway, choice requires knowledge of what is available, and there has been little improvement in information dissemination.

Target inefficiency. A large proportion of the contracting out of long-term care involves third-party payments – from the social security system. Wistow (1986) points to the "32,000 additional places in private residential homes, mainly for the elderly and largely financed by social security payments. This is happening without any assessment of the need of those clients for such services, so that it is at least possible that a good deal of social security payments . . . have been going to those who might have been better served by other kinds of care."

The parallel systems of local authority and supplementary benefit support were recognized by a joint central and local government working party set up in 1984. The working group recommended that methods be explored for extending existing local authority assessment arrangements for entry to residential care into the private and voluntary sectors when supplementary benefit payments are made. A second joint working party has been established and is funding research at York University to assess the feasibility of doing this.

Cost effectiveness. A crucial issue is the relative technical and price efficiency of public, voluntary and private agencies; this has attracted most of the rhetoric and generated a deal of invective. The majority of efficiency comparisons have failed to distinguish cost-effectiveness from cost and to compare like with like. Holding constant the exogenous influences on cost can considerably narrow the differences between sectors (such as those in Table 1). There is probably a small cost advantage accruing to the non-public sectors at present, but will there by any *long-term* advantage?

Future efficiency gains from contracting out

One reason for doubting the existence of a long-term cost advantage is that the non-public sectors have historically accommodated a less difficult clientele, with fewer dependencies, behavioural problems, handicaps or delinquent tendencies. This is certainly true of the two main areas of contracting out: residential care for children and elderly people. This is now changing, however, and local authorities are placing more difficult or dependent clients in voluntary and private homes. If the present cost difference between the public and non-public sectors is a reflection of differences in efficiency (if only in part) then the increasingly difficult or dependent population will have a greater inflationary effect on the two non-public sectors. There is a degree of slack in the public sector that could be taken up without raising costs.

A further reason for doubting any substantial long-term efficiency advantage is that there must be doubts about the supply and motivations of staff. The voluntary sector is often held to enjoy the services of staff offering a greater commitment and a willingness to work harder and/or for less money than their public sector counterparts. The supply of such highly motivated individuals is likely to dwindle because of the falling number of men and women joining religious orders, the intervention of government in the voluntary sector (less independence reduces job satisfaction), and the greater burdens of provision as voluntary agencies accommodate clients and problems previously handled by the public sector. If the voluntary sector is to continue to recruit able staff it will have to move rather closer to public sector salary levels.

In the private sector there is currently a preponderance of owner-managers, running small business enterprises with substantial family input of staff time, long hours and low levels of unionization. These combine to keep charges low, but the long-run supply price is likely to be much higher. Some proprietors have already brought in managers or have sold out to chain organizations. Both will raise costs and could lower quality of care. As private homes face more difficult referrals – an ageing elderly population in private old people's homes, a more disturbed and delinquent clientele in children's homes, discharged psychiatric patients – so their costs and charges rise. Staff may also demand better conditions of service as they become organized and perhaps unionized.

A principal source of the present cost-effectiveness advantage – and probably the only long-term guarantee of a continued advantage – is competition. The growing importance of the non-public sectors to government and of government business to non-public organizations generates greater competition. Private and voluntary organizations that survive (and many will not) will have to either improve their efficiency or subsidize the public sector from their non-POSC income. But if the voluntary and private sectors are already more efficient than the public, they will have less scope for cost reduction or output improvement by efficiency gains, and neither is likely to want to continue to subsidize public responsibilities.

Re-mixing the economy

It is *not* my view that health and social care should be the sole preserve of the public sector. Non-public agencies may or may not be inherently more innovative, but it does seem that a multiplicity of agencies will maximize the chances of generating innovations that improve efficiency. Advocacy and pressure group activities can be effective only if independent of the agencies providing care. Petty (and not so petty) tensions and jealousies between different public agencies (health and local authorities, probation and social services departments, and so on) may best be overcome by a non-public umbrella organization. Grants and other aid from the public sector will be needed. And, as argued above, suitably regulated contracting out, probably on a fee-for-service basis, can enhance efficiency. But contracting out is not the simple answer to a public sector that is purportedly over-bureaucratic, trade union-dominated, inflexible and unresponsive. It is likely to offer some long-term efficiency gains, without upsetting other policy objectives. While they can be exaggerated, these efficiency gains undoubtedly exist and have implications for all three formal sectors, insofar as there are efficiency-generating features of private and voluntary producers that could be adopted by the public sector. But that opens up Pandora's other box.

Conclusion

A great many of our present health and social care policies appear to make an automatic link between the objectives of de-institutionalization and privatization and the criterion of efficiency. By being more rigorous in the definition of efficiency, and by specifying more precisely what is meant in practice by de-institutionalization and privatization, we can see better whether and how these wide-ranging policies can generate efficiency improvements.

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Social Politics and Demographic Pressures: Is the Response Adequate?

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Introduction

Concern about the fiscal implications of demographic pressures on social welfare programs has been a prominent part of the debate on British social politics in recent years. In part this reflects the government's attempt to understand the difficulties it has experienced in limiting the growth of social spending – and the reasons why it seems to receive little credit for such real increases as have taken place. It is also a reflection of the wider concern, shared by many developed countries, about assessing the cost and considering the implications of financing the support (through income transfers and health and social care services) of a growing population of elderly and very elderly people.

This concern was among the reasons for the leaked documents on the future costs of social welfare from the now defunct Central Policy Review Staff and for Prime Minister Thatcher's avowed intention to undertake a fundamental review of whether we can afford the welfare state. This intention in turn was one factor behind the series of reviews of the social security system in 1984 and 1985. The demographic concern played a major part in the justification of attempts to reform the state earnings-related pension system.

Given the salience of the issue, this paper reviews two aspects of the role of demographic pressures in the social policy debate:

1. the nature and dimensions of these pressures in the recent past and in respect of both the immediate and the longer-term future; and
2. the responses to the pressures in terms of current spending and future policy adaptation.

But in doing so it also examines the lessons to be learned from the debate on demographic pressures and the nature of the responses, arguing that the evidence they provide, while indicating a capacity for fiscal adaptation, casts doubt on the quality of the policy adaptation and modification process and on the extent to which our political institutions are able to recognize overtly the complexity of some of the issues.

The Social Politics of Demography

Any discussion of the pressures on the welfare state runs the risk of seeing the pressures as the main issue. What is actually important is the nature and quality of the analysis of and response to those pressures. This common-sense, even trite, observation is in many ways the basis of this paper.

Too often, the reactions to a discussion of demographic or other pressures are predictable: one side sees them as proof of the need for cutbacks, while the other – perhaps in reaction – feels the need to dismiss the discussion as alarmist. This pattern is especially marked in any political discussion of the future of the welfare state. So, when Mrs. Thatcher initially launched the supposedly wide-ranging review of our capacity to finance current social welfare programs in the future, it did not take the form of a Royal Commission; such a commission might have concluded that though there were particular difficulties and stresses, there were no fatal problems. It might then have gone on to recommend adaptations and modifications to deal with the difficulties without threatening the basic structure of the system. Instead, the Thatcher government undertook an internal enquiry, with suitable leaks designed to prepare the ground for radical changes.

This strategy failed in two ways. In terms of the prime minister's political agenda, the kite-flying leaks revealed a much wider degree of public support for social welfare institutions than had been anticipated, so that the kites had to be hauled in rapidly to minimize the political damage. The second effect – which should be of concern even to those who do not share Mrs. Thatcher's political agenda – was to make much more difficult the possibility of an informed public debate on how best to respond to the genuine pressures on public spending and social welfare in the future. This even reached the ludicrous stage, when there was embarrassment about press discussion of the presence of very senior civil servants at the semi-official Leeds Castle conference (Berthoud 1985) convened to discuss the future of social welfare.

The existence of an environment where politicians, policy makers and political institutions cannot initiate or participate in honest and open discussion of the extent to which there is or will be a need to adapt or modify social programs would be regrettable at any time. It is particularly unfortunate when there are persuasive arguments that the real agenda of the welfare state over the next few decades will be dominated by questions of how to manage changes in priorities, how to achieve flexibility in programs, and how to adapt policy instruments to a changed policy environment. These arguments, which are based on seeing the welfare state as a mature social institution, are worth outlining briefly (see Klein and O'Higgins 1988, for a fuller discussion).

Adaptability and the Mature Welfare State

What difference does it make if we think of the welfare state as a mature social institution? How does this affect or enlighten our perception of the issues that need to be addressed?

On the economic side, it suggests that the rate of growth of spending on social programs is unlikely to be consistently more rapid than the level of economic growth in a society, as was the case throughout the period of expansion after World War II (although this does not mean that particular needs will not lead to specific expansions). This assertion is not based simply on ephemeral political hostility towards taxing and government spending in a range of countries or on any belief that we have in some sense provided adequately for the major social needs of the population. Rather it is based on two related aspects of the fiscal implications of rapid relative growth in social spending in mature welfare systems.

First, the opportunity costs of relative expansion are much greater than they were. In 1960 the average ratio of public social expenditure to GDP in the seven major OECD countries was 13.7 per cent; by 1981 it had grown to 24.8 per cent (OECD 1985, Table 1). Even if economic growth were to return to pre-1975 levels, a resumption of social spending growth at the rates of that period would require an ever-larger increment of the extra resources generated by economic growth.

Second, the expansion of social spending has been financed increasingly by taxes that stretch further and further down the income distribution, thus generating some social problems in the pursuit of solutions to others. For example, social security contributions are now the major tax falling on low-income earners in the UK, while income tax is payable by some with incomes that entitle them to apply for income-tested cash transfers to supplement their resources. This is not due simply to regressiveness in the distribution of the tax burden or remediable by reversing it. The increase in the tax burden in most countries since the 1950s has been of a magnitude that could not have been financed realistically without making the distribution of taxes less progressive. This means that the evaluation of the desirability of increases in social spending needs to take much more account than hitherto of the tax costs to the less well-off.

Table 1
Age Composition of the Population of Great Britain

	Percentage aged		
	0-14	15-64	65+
1951	22.4	66.7	10.9
1961	23.2	65.0	11.8
1971	24.0	62.8	13.2
1978	21.8	63.5	14.7
Projected[1]			
1986	18.4-19.5	66.4-65.4	15.2-15.0
1991	18.3-20.5	66.3-64.5	15.5-15.0
1996	19.2-21.9	65.6-63.4	15.2-14.7
2001	18.8-21.9	66.4-64.0	14.9-14.2

1. The projections illustrate the range between, respectively, a low and a high fertility assumption.

Source: Ermisch 1983, Tables 1.7 and 3.3.

On the institutional side, mature welfare programs face the same problems – rigidities, inflexibilities and employee self-interest – that characterize other large geriatric bureaucracies, problems that are likely to limit the degree of support for any further expansion. These factors underline the need to focus attention and debate on problems of change and adaptation. If the assumption of continuing fiscal constraint on spending growth is correct, and if demographic, social and economic changes continue to make new demands on social welfare services, then it follows that resources will have to be shifted between programs. Thus our capacity to achieve change in priorities and to devise effective policy modifications and responses within a constrained environment is an issue of major importance.

After reviewing some of the details of demographic pressures on social programs in Britain, the paper goes on to assess social policy responses in this light.

Recent and Prospective Demographic Changes

In terms of the implications for social provision, the most relevant demographic factors are the trends in the relative numbers of children and elderly people and the net change in the size of the potential labour force. Table 1 sets out the relevant data on the former. (This table and the discussion that follows draw heavily on the valuable work of Ermisch 1983).

Table 1 indicates the considerable ageing that has taken place in the population in the last few decades: whereas in 1951 there were twice as many people under the age of 15 as over the age of 65, there are now only just over a dozen children for every 10 old people. The proportion of those over 65 is now almost half as large again as it was in the immediate post-war period.

Two particular features of the table should be noted: the period when the changes took place most rapidly and their turning points. Between 1951 and 1971, the proportions of both young and old grew slowly, so that the relative number of non-elderly adults reached its lowest point in 1971. After that, the proportion of young people fell sharply while that of the old grew more rapidly. From 1978 to 1986 this sharp fall continued for the young, but the proportion of elderly grew much more slowly than in the previous seven years.

But if the 1970s (and, for the young, the early 1980s) were the period of sharp demographic change, the decade and a half from now until the end of the century is projected to be one of *greater demographic stability than any since 1951*. Depending on fertility, the proportion of children will increase slightly, while the proportion of elderly may decline marginally. Thus, the recent stress on social spending levels caused by the growing proportion of elderly people should not be a major issue for the immediate future.

Three cautions should qualify this complacent conclusion. First, while the proportion of elderly is stabilizing, the proportion of very elderly – those between the ages of 75 and 84 and those over 85, whose private income is on average lower while their health and social care needs are much greater – has now begun to rise. Those over 75 accounted for just over 30 per cent of pensioners in England and Wales in 1978, but this figure will, on conventional mortality assumptions, be close to 40 per cent by the turn of the century (Ermisch 1983, Table 6.3).

Second, those conventional mortality assumptions may not take adequate account of the increases in longevity that will follow from changes in smoking and lifestyle habits, improvements in medical technologies, and the improved social and environmental conditions in which more recent cohorts have lived the bulk of their lives. Thus, Ermisch calculates that while the proportion of people older than 65 in England and Wales will change from 14.7 per cent in 1978 to 14.5 per cent in 1998 and 13.9 per cent in 2008 on the conventional assumptions used by the Government Actuary, use of a more optimistic set of assumptions would lead to figures of 17.3 per cent in 1998 and 18.3 per cent in 2008 (1983, pp. 116-120). More immediately, these optimistic assumptions would increase the percentage of over-75s among the elderly. Ermisch emphasizes that this optimistic scenario for mortality "is an upper bound estimate, and not really a realistic alternative", but the magnitude of the effect is so great that even a partial shift towards the assumed decline in mortality could increase the proportion of elderly by several percentage points by early in the next century. The projection of a stable or slowly declining elderly population is therefore highly sensitive to changes in the mortality rate.

The third caution concerns the less immediate future. Even if the proportion of elderly people in the population remains broadly stable for the next 20 years, it is almost certain to resume increasing thereafter. As a result, the ratio of adults of working age to adults of pensionable age is projected, on conventional mortality assumptions, to decline from 3.4 in 2005 to 2.7 by 2025 (UK Department of Health and Social Security, 1984, Table 1). That this is also the time when the State Earnings Related Pension Scheme will be reaching full maturity is obviously one reason for recent concern about future pension costs.

The other major aspect of recent demographic change is its impact on the size of the labour force and thus (subject to wider economic factors, of course) on unemployment. If demographic effects are measured with the assumption of constant labour market participation rates, the British labour force was growing by over 110,000 (or more than 0.4 per cent) annually at the end of the 1970s, a figure that rose to 130,000 in the period 1981 to 1986 (Ermisch 1983, Table 4.7). Again, however, 1986 appears to represent a peak in this demographic pressure, as the increase is projected to decline to about 50,000 per year until 1991, after which the lower fertility of more recent years leads to slight negative demographic effects on the size of the labour force. (But the overall size of the labour force is expected to continue increasing because of the rising labour force participation of women.)

Policy Responses to Demographic Changes

In retrospect, therefore, the beginnings of the period of economic recession in Britain coincided with the period when demographic pressures on social spending intensified most rapidly. A declining number of children would allow some savings on education spending – the projected fall of 900,000 pupils between 1984 and 1991 would save over £800 million if costs per pupil were unchanged (UK Treasury, 1984, p. 15), though unit costs tend to increase during the process of contraction. The ageing of the population, however, imposes considerable costs on other budgets: those aged 65 to 74 cost the hospital service four times as much on average as those aged 16 to 64, while those aged 75 to 84 and over 85 cost 8 and 15 times as much, respectively. Hospital spending needed to grow in recent years at almost 1 per cent annually in real terms simply to maintain services in the face of this changing age composition of their clientele, although this figure will decline to almost nothing in the early 1990s (O'Higgins and Patterson 1985, Table 7.1). The pressures on the social security budget (where pensions account for about half of all spending) of increases in both the number of pensioners and the size of the labour force during a recession are obvious.

Yet these pressures appear to have been accommodated: the overall social spending budget has shifted in line with these changes. Thus, while education spending was held broadly static, spending on the National Health Service (NHS) and on social services continued to grow (a pattern common to both the Labour government of the late 1970s and the Conservative administrations that succeeded it). The share of public spending devoted to education fell from 11.8 per cent in 1978-1979 to 10.8 per cent in 1985-1986, while the health and social service budget share grew from 11.3 per cent to 12.4 per cent over the same period, becoming larger than the education budget in 1980-1981. Similarly, the social security budget share grew from 20 per cent in the mid-1970s to more than 30 per cent in the mid-1980s. Within health and social services, resources were shifted to the relatively deprived chronic care sector. While total real public spending rose significantly faster than the government had intended, it is now declining relative to GDP, and detailed independent analyses suggest that the standards of social welfare provision can at least be maintained over the next few years without any increase in the public spending share of national income (O'Higgins and Patterson 1985; O'Higgins 1985; Levitt and Joyce 1987).

If social spending can both shift and grow to accommodate the most severe post-war demographic pressures during the most severe post-war recession, should demographic concerns simply be ignored, especially if the pressures are likely to be slight until the next century? Has the political system in fact shown the capacity for adaptation and change that were argued to be necessary earlier in this paper?

In a fiscal sense, the answer is positive, which suggests that an undue emphasis on the fiscal stresses resulting from demographic changes is misplaced. However, fiscal details do not guide us in assessing the quality of the response—they may represent exigent rather than planned adjustments, they may reflect decisions by civil servants and service managers rather than the judgements of politicians after open and informed debate, or they may attain fiscal adaptability at the expense of service adequacy or appropriateness.

On these non-fiscal criteria the answer is less positive. Thus, for example, one might have assumed that a coherent and effective skills training program for 16- to 18-year-olds would have emerged in anticipation of a bulge in their numbers; but it is only now, when the bulge has passed and many young people have spent several years either unemployed or in dead-end make-work activities, that such a program is emerging. Similarly, the drop of almost one million in the number of school-age children during the 1980s is expected to be followed by an increase of about the same magnitude during the 1990s, so that the school population in 2000 will be of similar magnitude to what it was in 1980. Yet social provision so far has been, and seems likely to continue to be, out of phase with social need: a gradually diminishing 'excess' supply of teachers in the first decade followed by a gradual shortage in the second.

These failures may be more than the inevitable errors of even the best-run systems. Instead they may reflect the inability of our political institutions to respond effectively to issues of complexity and long-term planning, a conclusion suggested by the recent debates on NHS spending and on the future of pensions provision, which are examined in more detail in the following sections of the paper.

Spending on the NHS

As noted earlier, spending on hospital services needed to grow at annual rates of up to 1 per cent during the early and mid-1980s to meet the growing demand from an ageing population. In addition, the government accepted that improved medical technology and making progress towards specified policy aims each required a further increase in funding of up to 0.5 per cent annually. The extent to which NHS spending has or has not increased in line with demographic pressure or with this wider 1.5 per cent to 2 per cent target is a major source of political argument and misinformation in Britain. Given the perceived electoral implications, it would obviously be naive not to expect politicians to exaggerate or downplay the 'true' spending levels. Yet in doing so, they ignore both the disjunction between increased spending and increased services and the problems of directing spending increases – problems of management that would be common to any administration.

Table 2 sets out indexed data on NHS spending growth since 1979-1980. The data measure both the increased real cost (the cost of financing) and the degree of growth in the volume of real resources in both the NHS as a whole and in current spending on hospital and community health services. (The difference between real cost and real resources is the NHS relative price effect.)

Table 2
Indexes of Health Service Spending
1979-1980 to 1985-1986

	Real Spending Growth Index 1979-1980 = 100			
	Total NHS		Hospital Services	
Year	Cost[1]	Volume	Cost	Volume
1979-1980	100	100	100	100
1980-1981	109.9	102.8	110.0	103.1
1981-1982	112.0	105.8	111.3	105.1
1982-1983	114.2	107.4	111.7	105.9
1983-1984	115.8	108.3	112.4	105.9
1984-1985	119.2	109.9	113.9	105.8
1985-1986	119.3	110.5	113.5	106.3

1. Cost is cash spending deflated by the general rate of inflation; volume is cash deflated by the service-specific rates of inflation.

Source: Derived from Table B of House of Commons Social Services Committee, Fourth Report for the 1985-86 Session, *Public Expenditure on the Social Services*, HC 387 (London: HMSO).

The table shows that the real cost of the NHS has grown by almost a fifth in the six-year period, a growth considerably in excess of that achieved by national income. However, the difference between the cost data and the volume data shows that about half this increase was accounted for by the rate of increase of NHS pay and prices being greater than the general rate of inflation (most of this being due to the Clegg pay settlement in 1980). Comparing the volume data for the NHS with those for the hospital service shows further that the latter grew much more slowly – by only 6 per cent over six years as compared to 10 per cent for the NHS as a whole. The main reason for this difference is that the volume of resources going to the family doctor service part of the NHS grew by 20 per cent over this period.

Combining these two factors means that *only just over one-fifth of the total increase in the real cost of financing the NHS in this period went to raise the volume of resources in the hospital service*. Furthermore, most of this increase occurred in the earlier part of the six-year period: in the three years since 1982-1983, hospital volume spending grew by a total of only 0.4 per cent, a figure that makes the intensification of complaints from hospitals about underfunding easy to understand.

This complexity is not recognized in the political debate, an omission that has important consequences. In emphasizing the 20 per cent real increase, the government is stretching the belief of those working in and using the hospital service, who know that this bears little relation to their experience; such distrust, once generated, is likely to be difficult to overcome. By failing to recognize the low proportion of real spending increases that went to the volume of hospital services, it is also evading the question of whether this was a policy decision and, if not, how it might be better able to direct any increment of resources in the future. This in turn allows the opposition to ignore this question in terms of its own planning for government and, therefore, to ignore the possibility that implementing significant increases in hospital volume resources may prove to be much more expensive than expected.

The inadequacy of the debate is therefore objectionable not simply on the democratic grounds that it is not made clear to the general public, nor on the managerial grounds that it must lead to frustration among those working in the NHS, but also on the grounds of good government: the political argument as currently structured allows ideology masked by statistics to substitute for analysis of the difficulties of achieving a more effective policy impact.

Reforming Pensions

The Social Security (Pensions) Act of 1975, passed with bi-partisan support after almost 20 years of abortive attempts to legislate an effective scheme of earnings-related pensions, provides that in addition to contributing to the basic (flat-rate) social insurance pension scheme, each employee must be covered by an acceptable earnings-related scheme. This scheme may be an occupational pension (subject to its satisfying certain criteria) or the State Earnings Related Pension Scheme (SERPS). In general, the more secure and better-paid half of the labour force have chosen the former. SERPS benefits became payable from 1979, full SERPS pensions will be payable from 1998, and the scheme will reach full maturity after 2020. It may be noted that although full maturity will occur at the same time as the next peak in the relative number of elderly, the scheme began just too late to make any significant payments to those in the previous peak.

How much work had been done on projecting the longer-term costs of SERPS before the legislation was passed is a matter of some dispute. In recent years, independent analysts have focused on two aspects of these costs: the projected cost pressures resulting from the combination of generous pre-recession increases in pension benefits and the advent of system maturity; and the demographic developments discussed earlier, which suggest future increases in the elderly cohort, a corresponding reduction in the ratio of workers to retirees, and a consequential increase in the relative cost to the labour force of financing social pensions.

These two factors have led to suggestions that the cost of financing social pensions in the early part of the next century may require contribution rates of over 30 per cent (Hemming and Kay 1982b, 31). Even projections based on more optimistic assumptions about higher fertility point to contribution rates of 27 per cent (Ermisch 1983, 213).

The perceived problem is not simply one of escalating costs. SERPS involves a complex interaction between the public and private sectors, one that seems to be potentially inequitable as well as expensive. In effect, public finance is not simply underwriting contracted-out occupational pensions for earnings dynamization and post-retirement price indexation; it has also undertaken to meet some of those costs regardless of whether the occupational schemes could do so themselves (O'Higgins 1987). In recent years a powerful academic critique has therefore developed, emphasizing both the unplanned effects and inequities of the scheme and its unforeseen expense (Hemming and Kay 1982a; Kay 1985). Calls for the abolition of SERPS also began to come from those who, in principle, favoured or were not opposed to generous state provision but were concerned about the cost implications and distributive effects and inequities of the state underwriting of occupational provision (Taverne 1982; Creedy 1982; Hemming and Kay 1982c).

The compromise of 1975 was already showing signs of fraying at the edges before the government announced the series of social security reviews from which emerged two sets of proposals regarding second-tier pensions.

Initially, the government proposed abolishing SERPS while maintaining the rights of older employees currently registered in it (DHSS 1985a). In place of a requirement to participate in SERPS (or a private sector scheme of equivalent quality), younger and future employees were to be required to make a minimum earnings-related contribution to a private pension savings scheme, while the government would act to increase portability and transferability in private pension provisions. The proposals would have constituted a major shift of provision out of the public sector, albeit in the very long term.

Despite its large majority in Parliament, the government were forced to withdraw the original proposals, replacing them with proposals for a modification of some of the more expensive and anomalous aspects of SERPS. These proposals essentially reflected much of the informed critique of the previous years, although they also contained incentives designed to increase the proportion of the workforce who contracted out and to encourage individual rather than group coverage (DHSS 1985b).

Two features of this political retreat are of interest here:

1. the reasons for the retreat (and their implications for the possibility of major changes to social provision structures); and

2. the political response to the second set of proposals.

Why did the government retreat? Informed and interested reaction was hostile to the original plans – some 98 per cent of formal responses opposed it. This opposition included most sectors of industry and finance. From the point of view of the private pension industry, this may have been because they already had the bulk of the market they sought – the majority of affluent employees who are contracted out of SERPS. Those who are contracted in are generally less well-paid and work in smaller companies, and thus are less attractive as potential clients for private insurers. The informed opposition may also reflect an awareness of the double-burden costs of transition: more affluent, younger members of the workforce were to be required to contribute to the considerable costs of the residual (pay-as-you-go) SERPS scheme, while also paying to build up their own future entitlement.

A more political explanation focuses less on informed than on perceived mass opinion. The government were seen to be proposing to reduce pension benefits. Since the savings were long-run, there were no compensating tax cuts to offer the electorate. The complexities of the issue became irrelevant to a perception of potentially suicidal political masochism. As Taylor-Gooby says in a similar context, "the moral for policymakers is that they do best to work by deceit" (1985, 91). Modifications and technical amendments incur fewer short-term costs even if they bring lower long-term savings, so even for a professedly radical Conservative government, major restructuring is replaced with incremental reform.

The response of the main political opposition, the Labour Party, to the second set of proposals is equally instructive. They opposed the reforms and have pledged to reverse them if returned to power, despite the probability that some of the modifications (such as increasing the inflation-proofing responsibilities of occupational pension schemes) will be redistributive and that many reflect measures that a Labour government would likely have proposed in response to the perceived defects of the original scheme. The original Conservative proposals, however, had already changed the nature of the political debate that was possible: the revised proposals were seen not as justifiable or reasonable adaptations of a defective structure, but as a second attempt at dismantling a part of social provision. By distancing themselves from consensus about the broad structure of provision, the Conservatives rendered it more difficult to achieve consensus on adapting that structure. Their reforms may therefore prove to be yet one more short-lived version of British pension policy.

While the response of the Labour Party to the revised proposals may be comprehensible in terms of the lack of trust generated by the intent of the government's initial proposals, their broader policy promises on pensions show little evidence of having integrated short-term proposals into an awareness of the implications for benefit and spending levels of the long-term build-up of SERPS.

The major area of inadequacy in pension provision is for those who retired before SERPS became operational or who receive only a minor amount from SERPS or their equivalent occupational plan. For example, the incomes of couples and lone men over the age of 75 in 1982 were, respectively, 20 per cent and 30 per cent below those of corresponding groups aged 65 to 69 (DHSS 1984, Part 2, Table 6). Moreover, as SERPS matures the gap between the very old and the newly retired will be much greater. What is needed to assist the poor among the elderly without adding permanently to the cost of pensions is a pension supplement for those who gain little or no benefit from SERPS. One model is the Swedish PTS, which guarantees an income of 45 per cent above the basic pension level but adds only to pensions that need supplementation to reach this level. The function of PTS was to compensate older pensioners for the fact that rights to the general earnings-related pension accrued only gradually. PTS delivered its benefits automatically and therefore presented no problems of means testing. An equally important aspect for planners was that its tapered design meant that its costs were short-term: a simple continuation of real increases in the basic pension would have led to much higher total pension costs as the earnings-related scheme matured.

By contrast, the current Labour Party proposals envisage an increase of around 15 per cent in the real value of both the single and the couples' flat-rate retirement pension, a proposal that is to be implemented rapidly after the party assumes office. This proposal recognizes the considerable hardship experienced by those relying only on the retirement pension, but it does not appear to recognize the extent to which the maturing of SERPS (even in amended form), not to mention the development of occupational pensions, will change the policy environment. Those with a substantial SERPS pension (or its contracted-out equivalent) will not need the 15 per cent addition to the basic pension, and such a general increase will do nothing to reduce the inequality between those benefiting from SERPS and those not doing so. But it is difficult to see any government withdrawing the real pension increase (i.e., cutting the real value of the basic pension), even for part of the retired population, once SERPS is fully mature. This proposal therefore risks building up long-term costs in order to remedy (and then only partially) a short-term problem.

Conclusions: Styles of Debate and Policy Impact

The conclusion is not simply that there is an inadequate degree of good long-term analysis in our political and governmental system of the pressures on and prospects for the welfare state, although this is certainly true. Despite the disappointments of past attempts at central policy review units and integrated planning across the departmental boundaries of social policy, it seems certain that such units will be restored to our governance structures. Their work will be judged, however, and therefore their impact affected, by the climate of consensus or conflict in which they operate. However accurate and effective a piece of analysis recommending modifications to social provision, it will have less impact if it is suspected that the government will use institutional or program change as a way of achieving their real objective of cutting the welfare state down to size. Without a framework of consensus on the essential features of social protection, welfare structures are likely to be less adaptable, less flexible and less effective than otherwise. To say this is not to argue for the managerial nostrum of value-free welfare policies, but it does suggest that coherent and effective policy making may be incompatible with ideological fervour about the choice of policy instruments.

The argument is therefore that on grounds of open government, and because of the likely challenges facing the welfare state, we need a debate where change can be considered as a modifying rather than a threatening force. The adversary style of debate is not simply misplaced, it is positively harmful: it obscures and distorts the real questions facing the welfare state and allows an inadequate and ultimately welfare-defeating style of political analysis to continue and even to flourish.

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Annex A - Agenda

Thursday, October 16, 1986 - Ottawa

7:00 p.m.	Reception - Hosted by British High Commission at **Earnscliffe**

Friday, October 17, 1986 - Ottawa

	Chairperson - Claude Forget
9:00 a.m. - 9:30 a.m.	Introductory Remarks
9:30 a.m. - 10:00 a.m.	**The historical evolution and current status of social welfare systems (Canada)** "Social Policy in Canada: The Past as it Conditions the Present" - Al Johnson Discussant - Stanley Mansbridge
10:00 a.m. - 10:30 a.m.	Discussion
10:30 a.m. - 11:00 a.m.	Break

Friday, October 17, 1986 - Ottawa (cont'd)

11:00 a.m. - 11:30 a.m.	**The historical evolution and current status of social welfare systems (the UK)** "Was There Ever Consensus? Public Attitudes to the Welfare State in Britain" - Denis Balsom "The Welfare State Under Mrs. Thatcher" - Julian Le Grand
11:30 a.m. - 12:00 p.m.	Discussion
12:00 p.m. - 1:30 p.m.	Luncheon
1:30 p.m. - 2:00 p.m.	**Implications of demographic change for social policy (Canada)** "Demographic Change and Social Policy: Implications and Possible Alternatives" - The Honourable Monique Bégin Discussant - Shirley Seward
2:00 p.m. - 2:30 p.m.	Discussion
2:30 p.m. - 3:00 p.m.	**Implications of demographic change for social policy (the UK)** "Social Politics and Demographic Pressures: Is the Response Adequate?" - Michael O'Higgins "Health and Welfare: Searching for Efficiency in Long-Term Care" - Martin Knapp
3:00 p.m. - 3:30 p.m.	Break
3:30 p.m. - 4:00 p.m.	Discussion

Friday, October 17, 1986 - Ottawa (cont'd)

4:00 p.m. - 4:30 p.m.	**Unemployment and poverty: problems, prospects and options for the future (Canada)** "Can We Reform Canada's Income Security System?" - Michael Mendelson Discussant - Keith Banting
4:30 p.m. - 5:00 p.m.	Discussion
5:00 p.m.	Adjournment

Saturday, October 18, 1986 - Meech Lake

Chairperson - Rod Dobell

9:45 a.m. - 10:15 a.m.	**Unemployment and poverty: problems, prospects and options for the future (the UK)** "The Political Management of Unemployment in the United Kingdom: Another Issue Absorbed by the Welfare State?" - Jeremy Richardson "Poverty in the United Kingdom: A Challenge for Policy and Politics" - Jonathan Bradshaw
10:15 a.m. - 10:45 a.m.	Discussion
10:45 a.m. - 11:00 a.m.	Break
11:00 a.m. - 12:00 p.m.	**General Discussion (including brief summaries by one member of Canadian and one member of UK team)**
12:00 noon - 12:30 p.m.	Concluding remarks
12:30 p.m. - 2:00 p.m.	Luncheon

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The editor of this volume, Shirley B. Seward, is director of the studies in social policy program at the Institute for Research on Public Policy.

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